FINANCIAL TIMES

Russia
Chernomyrdin back on centre stage
Page 2

Nuclear power
Washington's dilemma over sales to China
Page 5

CD Text
Providing words to go with the music
Technology, Page 12

Today's surveys
Biotechnology
The Netherlands
Separate sections

World Business Newspaper http://www.FT.com THURSDAY OCTOBER 23 1997

THE GLOBAL COMPANY

Antony Lo
Giant, Taiwan

'We don't have any choice – we have to be a global company'

Part eight: In tomorrow's FT

WORLD NEWS

Dutch in court battle to back EU policy over food imports

The Dutch government hopes to overturn a national court ruling which prevents it co-operating in the European Union's planned retreat from a policy of favouring imports from present and former Caribbean colonies. Page 16; Dutch sugar ruling, Page 8; Netherlands survey, separate section

Clinton call to cut emissions: President Bill Clinton came under attack over a call for greenhouse gas emissions to be brought down to 1990 levels over the next 15 years. US industrialists called the proposal excessive. The European Union called it too modest. Page 16

Cheap repairs hope boosted: Prospects of lower-priced car parts and repairs in the European Union were boosted when the European Parliament voted to allow independent companies to continne making and selling spares and carrying out car repairs. Page 2

Serbia facing deadlock: Serbia could be hit by prolonged political deadlock after opposition Democratic party leader Zoran Djindjic said be would boycott elections. Page 4

Fast-track faces slowdown: President Clinton's bid for new "fast-track" trade negotiating authority appeared in trouble as a plan to push the legislation through the Senate hit procedural difficulties. Page 7

Greeks resist pay policy: Greek unions will use a 24-hour general strike to put pressure on the government to ease its income policy. Page 4

Big fall in UK retail spending: Spending in British shops suffered its biggest one-month fall for six and a half years in September, as the death of Diana, Princess of Wales, disrupted the nation's shopping habits. Page 9

Mine blast injures 18: A landmine detonated by suspected Tamil Tiger rebels injured at least 18 people on a bus in eastern Sri Lanka.

Indian cabinet U-turn: The Indian cabinet decided to reverse its earlier decision to seek the dismissal of the Hindn nationalist government in the northern state of Uttar Pradesh, the Press Trust of India said.

CD ring 'boosted neo-Nazis': German police said they had arrested three men on suspicion of being part of a ring making pirated compact discs that helped finance neo-Nazis in Germany and Denmark. Digital hunt for video pirates, Page 8

Robot to operate soon: What is claimed to be the world's first operating theatre robot has been developed at Humboldt University medical school, Berlin. The robot, nicknamed "Otto", could be in use within a year.

UK computer 'bomb' ignored: Most small and medium-sized British companies have compnter systems susceptible to the "millennium bomb" but few have taken steps to tackle the problem, says a Department of Trade and Industry study. Page 8

BUSINESS NEWS

MCI opens talks with bidders toward forming telecoms giant

MCI, the US group at the centre of one of the most dramatic takeover struggles in telecommunications history, will today begin formal talks in the US with its three competing suitors, WorldCom, GTE and British Telecommunications. Page 16

Frankfurt's chances of dominating the futures market for long-term government bonds improved as its market share of Europe's most liquid instrument rose above London's for the first time. Deutsche Terminbörse said it had traded 52 per cent of total activity on Tuesday in German 10-year bonds. Page 16; Bonds, Page 22

Asian electronics groups reacted angrily to a European Commission decision to impose anti-dumping duties of up to 89 per cent on imports of personal fax machines from Japan and six other Asian countries. Page 8

Investment bankers are working on a $2bn issue of shares in SGS-Thomson Microelectronics, the Franco-Italian semiconductor manufacturer, representing about 17.4 per cent of the market value of the group. Page 17

Seita, the French tobacco group, and its state-controlled Spanish counterpart Tabacalera unveiled plans for a strategic alliance which would enable them to join forces in international marketing and acquisitions. Page 20

François Pinault, the Breton financier, abandoned his attempts to buy Worms & Compagnie, apparently leaving the path clear for a friendly takeover by the conglomerate's leading investors. Page 17

SAP, the German business software group, surprised investors with strong sales and profits growth in the third quarter and said it had brought forward its planned launch of shares on a US stock exchange to the third quarter next year. Page 17

Autoliv, the Swedish-US supplier of car airbags and seatbelts, disappointed investors by reporting third-quarter pre-tax profits down from $62.4m to $61.5m. Page 20

Volkswagen, Germany's leading carmaker, said it expected to put at least one of two developing luxury models into production by 2000 as it challenges Mercedes-Benz in that market. Page 20

PolyGram, Dutch entertainment group, reported a 21 per cent increase in third-quarter net income, to Fl 85m ($42.3m), despite the sluggish state of the global music market. Page 20

Australia's dollar sank to its lowest level against the US dollar in two-and-a-half years, from 72.84 US cents to 71.22, after a warning by Goldman Sachs, the US investment bank, of an economic "shock" as a result of the currency and economic crisis in south-east Asia. Page 5

South Korea said it would nationalise troubled Kia Motors and sell its truck division. The action, a reversal of a decision not to rescue the vehicle maker, was rejected by Kia's management and brought a strike threat from trade unions. Page 17

Fears mount that territory could be next victim of Asian currency crisis

Hong Kong in turmoil as stocks fall another 6%

By John Ridding and Louise Lucas in Hong Kong and Edward Mortimer in London

Hong Kong's stock market fell more than 6 per cent yesterday, accelerating a rout this week as concerns mounted that the territory could fall victim to the currency crisis that has swept east Asia.

As Hong Kong's fall shook Asian markets and the shares of UK companies exposed to the region, Tung Chee-hwa, the territory's post-colonial leader, vowed to keep the currency pegged to the US dollar. He conceded that this would mean higher interest rates. The prospect shook investor confidence. Money market interest rates rose sharply and the Hong Kong dollar came under pressure.

The fall in share prices, the biggest this year, sent the blne chip Hang Seng index to a 13-month low and a combined decline of 14 per cent so far this week.

Other Asian markets felt the tremor. Shares in Taiwan fell over 2 per cent before regaining ground, while Malaysia's benchmark index closed 3.8 per cent down on the day. Only Japan and South Korea remained unshaken. Seoul investors were buoyed by news of a government rescue plan for troubled Kia Motors.

In London, falls in the three most sensitive Hong Kong stocks – HSBC Investment Bank, Standard Chartered and Cable and Wireless – accounted for 19.5 points of the FTSE 100's 77.1 point decline to 5,148.8.

"There is no confidence out there," said Archie Hart, director of equities at BZW (Asia). "Our machines are full of sells and not too many bnys."

Yawning realisation: a Hong Kong trader takes a relaxed view of the biggest fall in the Hang Seng index this year. The blue-chip index has suffered a combined decline of 14 per cent this week. Picture: Reuters

Until this week, Hong Kong had been seen as largely immune to the selling pressure that has hit other Asian currencies over the past four months. The Hong Kong dollar is the last currency in the region to remain pegged to tbe dollar. Tbe territory's strength, as Mr Tung repeated yesterday during his first visit to London since Hong Kong's return to China in July, was due to its "very good" fundamentals.

"We have buge fiscal reserves, huge foreign exchange reserves, and a budget surplus in nine out of the last 10 years. That will continne in the future," be said.

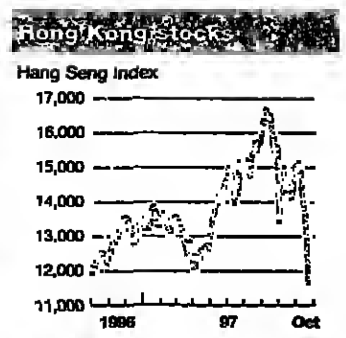
While analysts said the Hong Kong dollar was in a much stronger position to withstand assaults than otber regional currencies, investors fear the impact of higher interest rates on the property and banking sectors, the twin pillars of the territory's economy.

Hong Kong's peg to the dollar, set at HK$7.80 since it was established in 1983, has proved an important support for confidence through the territory's return to Chinese sovereignty in July.

Donald Tsang, Hong Kong's financial secretary, yesterday defended the peg. "There is no political or economic need for us to disband the peg," be said. "The Hong Kong dollar remains rock solid. We bave US$80bn in reserves and no debt."

Currency traders said they saw signs of speculative activity against the Hong Kong dollar, which slipped to a support level of HK$7.75. "We have seen substantial purchases of currency forwards against the Hong Kong dollar over the past few days," said one trader.

Hong Kong stocks



Source: Datastream/ICV

China-backed shares continued to dive, prompting gloomy prospects for the Hong Kong debut of China Telecom today.

Clinton move on greenhouse gases comes under fire

By Bruce Clark in Washington

President Bill Clinton called yesterday for a reduction in the emissions of greenhouse gases, produced mainly by fossil fuel burning, to 1990 levels over the next 15 years.

The proposal, which will define Washington's position in forthcoming negotiations on climate change, was described as excessive by US industrialists, while the European Union called it too modest.

Mr Clinton, caught between domestic lobby groups and his own belief that climate change presents a deadly threat to the planet, said countries should be allowed to meet the stabilisation target between 2008 and 2012. He also announced a wide-ranging list of incentives to US industry to reduce reliance on coal and oil through energy efficiency and greater use of renewable sources of power. The proposal is much more cautious than the EU's call for the output of greenhouse gases to fall 16 per cent below 1990 levels by 2010. It also falls well short of the president's own suggestioo four years ago that emissions might be stabilised by the end of the century.

Mike McCurry, tbe White House spokesman, said Mr Clinton had not anticipated, when be mads his initial statement, bow fast US industrial output would grow. Any sttempt to stabilise emissions by 2000 "would most likely wreck the world economy", he added.

The US Senate Energy committee immediately made clear that there would be no question of ratifying an accord on climate change, which may emerge from the forthcoming UN conference in Kyoto, Japan, unless developing countries also made firm pledges to limit their emissions.

"American consumers and workers will pay dearly for the [president's] proposal," said an official familiar with the panel's thinking, wbo added that Mr Clinton's plan might require a carbon consumption tax of up to $50 per ton. The Senate has opposed even a modest carhon tax.

Dale Heydlauff, a vice-president of American Electric Power, said stabilising emissions by 2010 could cost the sector up to $9bn.

In Brussels Ritt Bjerregaard, EU environment commissioner, said she was disappointed with the "very weak level" of US ambition. "This is not an adequate response to the global problems of climate change." The EU feels the US is reneging on commitments made at the earth summit in Rio de Janeiro in 1992 when it agreed with other nations to stabilise emissions at 1990 levels hy 2000.

Additional reporting by Michael Smith in Brussels

UK government to push wave and wind power, Page 10

Boeing hit by production costs

By Michael Skapinker in London and Daniel Bögler in New York

Boeing of the US said yesterday that its inability to meet surging demand for new aircraft had pushed it into loss in the third quarter and would reduce its earnings next year.

Boeing, the world's biggest aircraft maker, has been struggling for several months to increase its output to meet what it calls "the steepest production increases since the dawn of the jet age".

Philip Condit, chairman, said the company would take a $1.6bn charge in the third quarter, results of wbich will be announced tomorrow. He said the disruption would cost Boeing a further $1bn next year. The company has taken on an extra 14,000 staff over the past year to try to meet its production targets.

Boeing's attempt to increase production to 43 aircraft a month by April, compared with 18.5 a month last year, bas been hampered by shortages of staff, raw materials and components. It has suspended production of its 747 and 737 models for a month in an attempt to catch up. The Boeing 747 is the world's largest civil aircraft and has 6m parts.

Analysts expressed surprise at the cost of the production difficulties and the third quarter loss. They had been expecting earnings per share of 45c for the quarter. Joseph Campbell, an

Continued on Page 16
Lex, Page 16

Karel Van Miert, the European Union competition commissioner, yesterday ordered an inquiry after Delta Air Lines of the US said it had appointed Boeing its exclusive aircraft supplier for 20 years, writes Michael Skapinker. Boeing this summer agreed to drop the exclusivity clauses from three supply agreements with US airlines. The agreement to drop the clauses was one of the conditions Mr Van Miert had imposed in return for EU approval of Boeing's takeover of McDonnell Douglas, also of the US. Report, Page 8

Markets

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8,014.27	(-46.17)
NASDAQ Composite	1,709.40	(-3.14)
Europe and Far East		
CAC40	2,858.06	(-31.83)
DAX	4171.45	(+31.95)
FTSE 100	5,148.8	(-77.1)
Nikkei	17,887.61	(+477.52)
US LUNCHTIME RATES		
Federal Funds	5⅝%	
3-mth Treas Bills: Yld	5.114%	
Long Bond	99⅝	
Yield	6.419%	
OTHER RATES		
UK: 3-mo Interbank	7⅝%	(same)
UK: 10 yr Gilt	104.625	(104.615)
France: 10 yr OAT	98.03	(98.0)
Germany: 10 yr Bund	101.71	(101.85)
Japan: 10 yr JGB	108.86	(same)
NORTH SEA OIL (Argus)		
Brent Dated	$19.86	(19.33)

GOLD		
New York Comex		
(Oct)	$322.1	(322.3)
London:		
	$322.40	(323.25)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.6335	
DM	1.78275	
FFr	5.97545	
SFr	1.47915	
Y	120.715	
London:		
£	1.6350	(1.6349)
DM	1.7815	(1.7851)
FFr	5.9711	(5.9802)
SFr	1.4752	(1.4838)
Y	120.675	(120.405)
Tokyo close		Y 120.775
Sterling		
DM	2.9127	(2.9164)

London · Leeds · Paris · Frankfurt · Stockholm · Madrid · New York
Los Angeles · Tokyo · Hong Kong

Bahrain	Din1.200	Belgium	BFr60	Cyprus	C£1.35
Denmark	DKr21.00	Estonia	EEK34.00	Finland	FmK19.00
France	FFr12.00	Gibraltar	£1.75	Greece	Dr450
Hungary	Ft340	Iceland	IKr285	Jordan	JD1.75
Kuwait	Fils750	Latvia	Ls 1.85	Lithuania	Lit21.00
Luxembourg	LFr60	Morocco	Dh18.00	Netherlands	Fl5.00
Nigeria	[illegible]	Norway	NKr23.00	Oman	OR1.75
Poland	Zl 7.50	Portugal(Mainland)	Esc300	Qatar	QR13.00
S.Arabia	SR13.00	S.Africa	R13.50	Spain	Pta275
Sweden	SKr22.00	Syria	SP 80.00	Switzerland	SFr3.80
Tunisia	Din2.000	UAE	Dh13.00		

4 S

Inside

COMMENT & ANALYSIS

Banking on the high rollers in the Asian market, Page 34

TECHNOLOGY

FINANCE

EMERGING MARKETS

Hopes boosted for cheaper car parts and repairs

European Parliament reverses Council plan to give monopoly to carmakers

By Emma Tucker in Strasbourg

Prospects of lower prices for car parts and repairs in the European Union were boosted yesterday when the European Parliament backed a proposal to open the market to competition.

A parliamentary amendment, voted by an overwhelming majority, reversed a Council of Ministers proposal for an EU-wide law that could have given car manufacturers a monopoly over the supply of spare body parts.

MEPs voted to allow independent car spare parts and repairs companies to continue producing and selling spare parts and carrying out car repairs throughout the EU. The move flies in the face of a Council decision to leave the market for car spares fragmented along national lines.

The Council must now decide whether to adopt the amendment, which forms part of a wider draft EU law aimed at harmonising the legal protection of industrial design.

Different countries have different rules concerning the design protection given to car spare parts such as bumpers, bonnets, wings, windscreens and lamps.

Britain, for example, does not protect spare parts and has encouraged the growth of an independent supplies market. By contrast, all car parts are protected in France and only the original manufacturers are entitled to replace damaged or stolen parts. Other member states fall between the two.

In order to create a single market the Commission proposed a "repairs clause" which would have made it possible for independent suppliers to operate and sell anywhere in the EU, but only after paying a "fair and reasonable" royalty to the original car manufacturer as compensation for its investment in the design of the spare part.

Motoring organisations, consumer groups and insurance companies backed the move, believing it would lower the price of spare parts in Europe. However, carmakers opposed it, arguing it was only fair they should receive protection against the reproduction of car spare parts, whose design requires time and investment. They also said opening up the market to independents would compromise safety.

According to the European Campaign for the Freedom of the Automotive Parts and Repair Market, vehicle owners in the EU spend about Ecu88bn ($100bn) on repairs every year, of which about Ecu44bn is the cost of spare parts.

At its first consideration of the draft law the Council opted to allow member states to establish their own rules. This meant parts made legally in one member state could be refused access to another member state.

Yesterday's amendment by the Parliament reinstates the "repairs clause". If the Council does not accept it, the proposal will go to conciliation between the Council and the Parliament.

Chernomyrdin tipped for president

By John Thornhill in Moscow

Boris Yaltsin, Russia's president, yesterday heaped praise on his prime minister, Victor Chernomyrdin, for helping to resolve a confrontation with parliament after the Communist party dropped a no-confidence motion against tha government.

"I appland Victor Chernomyrdin in connection with the Duma's removal of the no-confidence question," said Mr Yeltsin, who earlier this year had chided his prime minister for his seeming reluctance to embrace radical reform.

Mr Chernomyrdin won plaudits from the president and parliament for calming the latest clash over economic policy by agreeing to consult MPs more fully in the future.

The recent turn of events completes a striking transformation in Mr Chernomyrdin's reputation, putting him back at tha centre of the Russian political stage and sparking speculation he may succeed Mr Yeltsin in 2000.

It was previously thought Mr Chernomyrdin had been largely marginalised by Anatoly Chubais and Boris Nemtsov, the two first daputy prime ministers, who had been busy setting the government's reformist agenda.

The Nezavisimaya Gazeta newspaper said Mr Chernomyrdin had become "candidate number one for the post of Russian president in the year 2000", commanding respect across the political spectrum. In an interview with the influential Itogi television programme on Sunday night, Mr Chernomyrdin did little to deny his presidential ambitions, though be refused to state them explicitly.

Mr Chernomyrdin's renaissance could lead to a softening of the most radical edges of the government's reform programme. One of the biggest battles is likely to be over the new tax code, which Mr Yeltsin offered to withdraw from parliament for further revision.

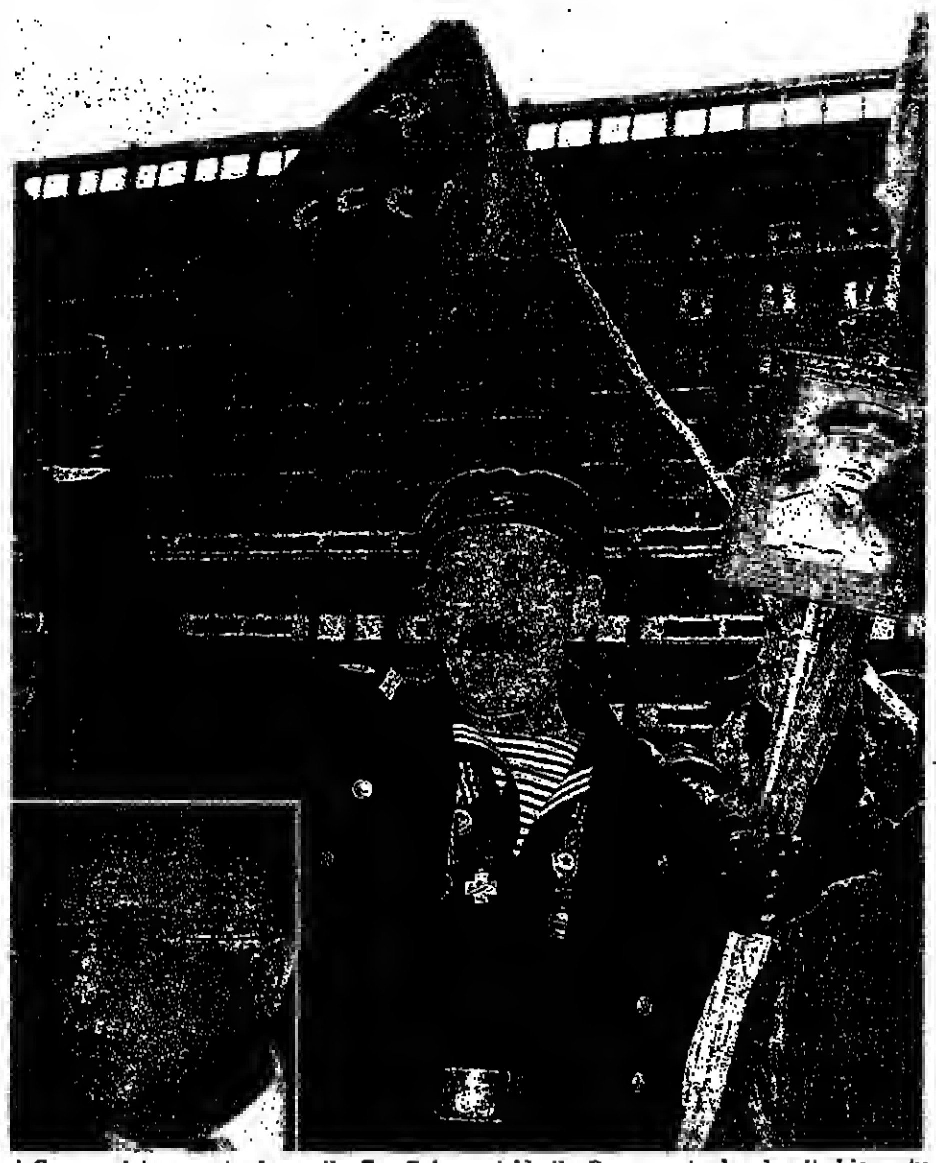
Mr Chubais, who argues adoption of the tax code is critical for next year's budget, said a joint government and parliamentary commission decided yesterday not to withdraw the code from parliament, and press ahead with its second reading.

Andrei Illarionov, head of the Institute of Economic Analysis, said there was a possibility a better tax code could yet result from the present talks. "There is no guarantee but this could prove s victory for the government if the liberal deputies can make improvements," he said.

Mr Chernomyrdin's virtues as a consensus-seeking politician have been highlighted during the government's latest skirmish with parliament. As a former central committee member of the Soviet Communist party, Mr Chernomyrdin has personal ties with many of the present Communist party leaders. He is also the leader of the Our Home is Russia movement, which forms the second biggest faction in parliament.

As the ex-head of Gazprom, the giant gas monopoly, Mr Chernomyrdin also commands the respect of the country's business leaders, who control much of the media and have been seeking to boost his influence.

But while tha political elite in Moscow may be singing Mr Chernomyrdin's praises, it is not clear the rest of the country is similarly minded. Opinion polls show Mr Chernomyrdin has the support of just 2 per cent of the population.



A Communist supporter keeps the flag flying outside the Duma yesterday despite his party backtracking on a no-confidence motion in the government. Inset: Victor Chernomyrdin has won praise from Boris Yeltsin for defusing the row over economic policy Reuters

FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850. Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. The shareholder of the Financial Times (Europe) GmbH is Pearson Overseas Holdings Limited, 3 Burlington Gardens, London, W1X 1LE. Shareholder of this company is Pearson plc, registered at the same address
GERMANY:
Responsible for Advertising content: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boetie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

MEPs go on the attack in chocolate war

By Emma Tucker

A proposal to allow British-style chocolate containing vegetable fat to be sold throughout the European Union was attacked by MEPs yesterday, with supporters of "pure" chocolate leading the offensive.

MEPs from Belgium, the Netherlands and France, where chocolate producers use only cocoa butter, tried to delay the adoption of a proposal from the European Commission that would allow all types of chocolate – with or without vegetable fat – to be sold as chocolate in every EU country.

They argue that under the proposed system there would be no way of stopping big chocolate producers from going beyond the permitted 5 per cent level, since there is no accurate way of measuring the amount of vegetable fats other than cocoa butter used in chocolate.

But the champions of pure chocolate are also fundamentally opposed to the use of vegetable fat in chocolate.

The vote on the parliament's amendments will take place today. A simple majority is required for the amendments to be adopted.

Yesterday's offensive was the latest chapter in a chocolate battle that has been raging ever sinca the UK, Ireland and Denmark joined the EU in 1973.

Until then chocolate in the six original member states was made using only cocoa butter.

The new entrants were granted exemptions from the rules, allowing them to continue using other vegetable fats for up to 5 per cent of the total weight of the chocolate. However, the export of such chocolate was banned across the EU. Similar exemptions were granted for Portugal, Austria, Finland and Sweden, where vegetable fat is also used, when they joined.

The Commission wants to change the rules to create a genuine single market in chocolate. At present, a British subsidiary manufacturing chocolate in a "pure" chocolate country has to respect its chocolate rules.

Defenders of pure chocolate are supported by developing nations which supply cocoa butter and argue changes to the status quo will damage their exports. Alain Gauze, minister for raw materials from the Ivory Coast, said: "If we are not careful the building of Europe will consider the requirements of the multinationals over those of developing nations and consumers".

NEWS DIGEST

EU told not to penny-pinch

Squabbling over costs should not be allowed to paralyse the European Union's historic expansion beyond the old Iron Curtain, two EU leaders said yesterday. Jacques Santer, Commission president, said the 15 member countries should not view expansion solely in terms of what they pay into, and receive from, EU coffers.

"We must guard against falling into the trap of a purely national, penny-pinching approach," Santer told the European Parliament during a speech on the EU executive's work programme for next year. Jean-Claude Juncker, tha Luxembourg prime minister, whose country holds the rotating EU presidency, said EU expansion faced paralysis if members continued arguing over who paid for embracing former communist countries.

The EU executive, in a policy document for the next century, proposed in July that the bloc should open membership talks early next year with five out of 10 eastern candidates – Poland, Hungary, the Czech Republic, Slovenia and Estonia. *Reuters, Strasbourg*

■ HUNGARY-ROMANIA TIES

Horn warns on nationalists

Gyula Horn, the Hungarian prime minister, who is on a visit to Romania, yesterday called for governments in both countries to distance themselves from radical nationalists. The Romanian government responded to Mr Horn's visit, by announcing the creation of a Hungarian-language university for tha country'a 1.6m-strong Hungarian minority.

However, Victor Ciorbea, the Romanian prime minister, said there would be no restoration of the historic Hungarian university in Cluj, which was made exclusively Romanian-language under the former communist dictatorship.

The governments also agreed on new border crossing points, a joint investment bank and a new road linking the two countries, but much of the discussion was focused on minority rights. Mr Horn asked that the Romanian coalition, in which the party of Hungarian Romanians participates, should "clearly distance itself" from nationalist voices. He promised to do the same in Hungary. *Anatol Lieven, Budapest*

■ BULGARIAN FILES

Intelligence agents named

Bulgaria's reformist government yesterday published the names of 23 leading public figures who had worked for the communist-era State Security Service. The step made use of a new law intended to purge some of the legacy of communism. The list read out in parliament by Bogomil Bonev, interior minister, included 14 members of parliament, four magistrates and a banker.

But of these, only a handful were accused of informing on compatriots, while the rest were considered to have been tainted simply by being part of Bulgaria's intelligence and counter-intelligence network.

Ivan Kostov, Bulgaria's prime minister, has said government officials who worked for the state security service under communism, in whatever guise, will be dismissed. But the list was likely to disappoint Bulgarians who have applied to see the files maintained on them by up to 100,000 fellow citizens working as agents and informers for the communist secret police and who want to know who the informers were. *Reuters, Sofia*

■ BOSNIAN SERBS

More peacekeepers for polls

Nato plans to reinforce peacekeeping operations in Bosnian Serb territory in case of any trouble during elections in Republika Srpska, Bosnia's Serbian entity, in late November, Nato officials said yesterday.

"We need a very modest reinforcement," a Nato official said. Nato's permanent ambassadors discussed the issue at their regular meeting yesterday and agreed in principle to go ahead. The official declined to discuss figures but said the requirement for the ballot on November 23 would be somewhat less than September's reinforcement of around 3,000 extra men brought in to help safeguard Bosnian municipal elections. *Reuters, Brussels*

■ ECONOMIC WATCH

French output improves

French industrial production rebounded in the summer, confirming that the economy is in upswing. Seasonally adjusted figures released yesterday by Insee, the government statistics agency, showed production during the combined months of July and August was up 3.8 per cent on June.

The push has continued to come from a strong export performance on the back of a weaker franc. This was largely reflected in a 5.2 per cent increase in the automotive sector. But Insee also detected signs of improved domestic demand. It is still not clear the to what extent to which the improvement represents stock-building or real demand. But an Insee official said yesterday: "This is an important rebound; we are on the right track." *Robert Graham, Paris*

Socialist members of finance commission discreetly force central bank towards greater openness

Leftwingers take on Bank of France

By Robert Graham in Paris

Leftwing parliamentarians have begun a discreet battle to force the Bank of France towards greater openness over monetary policy.

The first shots were fired this week when the parliamantary finance commission held a meeting with the Bank's monetary council, headed by Jean-Claude Trichet, the governor, and asked for an explanation of a recent interest rate increase.

The only other such meeting in recent years took place just after a new, nine-person monetary council was formed in 1993.

This week's encounter provoked a boycott by the opposition centre-right members of the finance commission. They said the move was a deliberate attempt to interfere with the central bank's independence in monetary matters.

The meeting initially took the form of a summons by Henri Emmanuelli, the Socialist head of the finance commission, after the Bank of France raised its intervention rate by 20 basis points in line with the German Bundesbank on October 9.

Mr Emmanuelli made it clear he felt France'a unprecedentedly low inflation gave little justification for the rate increase.

Even members of the governmant privately expressed unhappiness at the timing. The Bank of France explained its action as a pre-emptive move against inflation 18 months to two years down the line, while also giving a strong signal with the Germans on a committment to a "hard" euro.

The Bank of France is understood to have consulted lawyers about the summons to parliament, and only agreed when it was toned down to an "invitation" to appear before the finance commission. The governor of the central bank also insisted the encounter should be informal and was granted a demand for a session behind closed doors.

Yesterday a spokesperson for Mr Emmanuelli said: "We are not challenging the bank's independence; but we do need to hear the bank'a views and debate them. This was not a confrontation and further meetings will be held if and when required."

German and French short-term rates are aligned at 3.30 per cent. In this atmosphere a further rata rise by the Bundesbank, replicated by the Bank of France, is likely to produce a more hostile reaction from the politicians.

German trade surplus growing

By Peter Norman in Bonn

Continuing export strength and weak domestic economic activity are propelling Germany to its highest trade surplus and lowest current account balance of payments deficit since unification in 1990, official figures indicated yesterday.

The federal statistics office said the merchandise trade surplus jumped to DM77.3bn ($44.1bn) in the first eight months of this year from DM61.1bn in the same 1996 period. Exports grew 11.6 per cent to DM568.5bn, outstripping a 9.6 per cent rise in imports to DM491.1bn.

The deficit on the current account, embracing trade in goods, services such as tourism, investment income and certain unilateral transfers, shrank in the period to DM12.2bn from DM18bn.

August is traditionally a weak month for exports; they rose only 13 per cent against the same 1996 month, as imports rose 14.4 per cent. But the August visible trade surplus, while declining to DM8.6bn from DM11.1bn in July, was higher than the DM8.3bn of August 1996.

August's DM5.3bn current account deficit was higher than July's DM2.7bn shortfall, but lower than the DM5.9bn deficit of August last year.

Yesterday's figures suggested this year's visible trade surplus will exceed last year's post-unification high of DM103bn, while the current account deficit is expected to be less than the previous low of DM19.7bn reported last year.

The continuing weakness of domestic demand was highlighted yesterday by the federal association of medium and large retailers, which reported that department store sales fell 4.2 per cent in value between August and September.

It said warm weather depressed demand for autumn fashions but warned no improvement had occurred so far this month.

Lacklustre conditions at home and a partial recovery of the D-Mark helped contain the rise in German producer prices in September. The statistics office said the producer price index rose 0.1 per cent between August and September, reflecting a 1.5 per cent drop in oil product prices.

Irish consensus on North dented

Candidates fall out over Ulster as poll approaches; Sinn Féin may be the beneficiary

It used to be fashionable to believe there was little to distinguish Ireland's main political parties on the difficult issue of Northern Ireland. But that view has recently been badly dented with a row over Mary McAleese, the Belfast law professor standing as Fianna Fail's candidate to succeed Mary Robinson as Irish president.

The divisions among Ireland's political elite come at a time when the Republic has to agree a stance on Northern Ireland, with peace talks due to conclude next May.

With a week to polling day, the main opposition Fine Gael has been trying to paint Ms McAleese as a hardline nationalist, to harness widespread public antipathy in the Irish Republic towards Northern Ireland and its so-called "Troubles".

The allegations, which she denies, stem from a leaked Irish foreign ministry report suggesting she was "pushing a Sinn Féin agenda" during the recent British general election.

For tha moment she appears to have ridden out the storm. In any event, if she wins, Ms McAleese's politics will hardly matter, as in practice the presidency has only limited ceremonial powers. But the row has for the first time exposed deep differences over Northern policy.

Michael Laver, professor of political science at Trinity College, points out that although all main parties profess a bipartisan approach, Northern Ireland has often been the undoing of Fianna Fail, from allegations that ministers were involved in arms smuggling in the 1970s to the defection from the party of what were to become the Progressive Democrats – Fianna Fail's current coalition partners.

Prof Laver believes the issue could put strain both on the coalition and between the main parties once the shape of a settlement emerges at the Northern Ireland multiparty talks. Any settlement would have to be passed by parliament and approved by the country in a referendum next May.

Dick Spring, the Labour party leader, yesterday accused the big parties of reverting to the politics of the civil war, fought over the treaty partitioning Ireland, backed by Fine Gael and opposed by Fianna Fail.

McAleese: denies claims she pushed forward a 'Sinn Féin agenda' *Maxwell*

Mary Banotti, the Fine Gael candidate, had to apologise for remarks suggesting Fianna Fail had somehow got second best in having to recruit a candidate from Northern Ireland.

The Northern factor had already surfaced with the early speculation that John Hume, Northern Ireland's best known nationalist MP, might put himself up.

Ms McAleese has found what many Northern nationalists find when they come south – that the country they thought of as theirs thinks of them as foreigners.

Ironically, Northern Protestants who settle in the south are often given a warmer reception.

"Protestants would be seen to be making a statement by living in the south," says a leading Dublin banker.

The real winner in all this appears to be Sinn Féin. In publicly endorsing Ms McAleese, Gerry Adams, the Sinn Féin president, seems to be calculating that if she wins, he can claim her as Sinn Féin's candidate.

But if she is seen to lose because of anti-Northern bias, it will fuel the sense of victimhood and isolation which has long been a rallying cry for Sinn Féin in Northern Ireland's "occupied six counties."

John Murray Brown

Poll boycott threatens Serbia with deadlock

By Guy Dinmore in Belgrade

Serbia yesterday faced prospects of a winter of political deadlock after an opposition leader said he would boycott forthcoming elections.

Zoran Djindjic, leader of the opposition Democratic party, said he would boycott a new round of presidential elections which have been called by the ruling Socialists. However, his decision may help the ruling party at a time when it is increasingly beleaguered.

Serbia was left without e president this month after a turnout below the legal threshold of 50 per cent invalidated an election in whicb Vojislav Seselj, the ultra-nationalist Radical party leader, defeated Zoran Lilic, a protégé of Yugoslavian President Slobodan Milosevic. A boycott campaign by Mr Djindjlc in protest against unfair electoral conditions contributed to the low turnout.

Mr Djindjic said no progress had been made in opening up state-run media and that consequently hs had not changed his mind on a boycott.

Analysts said a boycott by centrist parties, combined with general voter fatigue, would again block a victory by Mr Seselj and play into the hands of Mr Milosevic, leaving him weakened bnt still Serbia's most powerful figure.

The Soclelists heve announced fresh elections for December 7 but have not said whether Mr Lilic would stand again. The Radicals are due to meet today to decide their position.

Mr Milosevic, who was barred by the constitution from running for a third term as Serbian president, has also seen his Socialist coalition lose its majority in the Serbian parliement because of Radicals' gains.

The task of the Yugoslav president is made harder by the plight of Belgrade residents, many of whom reacted with indifference to the news of more elections. Many fear a tough winter because of reduced gas supplies and more expensive food. Several hundred elderly people, some in wheelchairs, demonstrated in protest at delays in their pensions.

"It is going to be e harsh winter," said Ljusa, a retired worker, standing in front of the empty counters of a state butcher which, when it has stocks, sells cheaper meat than private stores. "Every winter gets worse and worse. We are fed up with elections. Nothing changes."

Nor do the troubles of Mr Milosevic end in Serbia. He suffered a further setback this week when Momir Bulatovic, his close ally in the small republic of Montenegro, was defeated in presidential elections by Milo Djukanovic, the pro-western, reformist prime minister.

Mr Bulatovic, the current president whose term expires in January, rejects the results and accuses his rival of fraud. He said the Organisation for Security and Co-operation in Europe (OSCE), which gave the elections a clean bill of health, had closed its eyes to alleged irregularities in the interests of a bostile west.

About 2,000 Bulatovic supporters gathered in Podgorica, the Montenegro capital, yesterday for a second day of protests whipped up by nationalist propaganda launcbed by Serbia's state media against Mr Djukanovic, who is portrayed as a secessionist close to ethnic Albanians and Moslems.

Zoran Djindjic: declared he would boycott presidential poll in Serbia in protest at unfair electoral conditions *Reuters*

"Milosevic is preparing for war in Montenegro," said Mr Djindjlc, referring to the nationalism sparked by the Serbian leader in the late 1980s at the outset of secessionist wars in Slovenia, Croatia and Bosnia.

But residents of Podgorica said it appeared that support for Mr Bulatovic was waning despite tbe help of Mr Seselj's Radical party and the Serbian secret police, who are controlled by Mr Milosevic.

Schneider seeks to share the blame

By Graham Bowley in Frankfurt

Former property tycoon Jürgen Schneider yesterday made his most revealing confessions to date in what has turned out to be Germany's biggest post-war corporate fraud trial.

But Mr Schneider, whose property empire collapsed in 1994 under debts of more than DM5bn ($2.8bn), again insisted that some of the country's banks share some blame for their willingness to finance his plans.

Mr Schneider, once one of Germany's wealthiest citizens, is charged with duping banks and creditors into making bigger loans than his development projects justified. He has been vilified by the German public for the buge debts he left behind, which left many small construction companies with unpaid bills.

At the same time he was hailed as a hero by some in eastern Germany, where he was responsible for redevelopment of some city centres after German reunification. He was also seen by to have delivered a welcome blow to the country's large and often imperious banks, who were criticised for their apparent willingness to finance Mr Schneider's rapid expansion.

The trial caught the public's attention last month when Hilmar Kopper, former chief executive of Deutsche Bank and one of Germany's leading bankers, admitted that Deutsche Bank made "inexcusable errors" in lending to Mr Schneider.

However, Mr Kopper insisted that top officials at Deutsche Bank – Mr Schneider's biggest single creditor – were not responsible for the lack of supervision over Mr Schneider's finances.

But Mr Schneider admitted yesterday to altering plans for a building in Frankfurt after they had been given approval by the building authorities. He said he was unlikely to have been given bank loans without the approval of the authorities and that the banks probably would not have known the alterations were made after the authorities had seen the plans.

Mr Schneider and his wife fled Germany secretly just before the collapse of his property business. They returned to Germany in 1996.

Cartel office intervenes in travel bid

By Frederick Stüdemann in Berlin

Moves to consolidate Germany's travel industry suffered a setback yesterdey wben the federal cartel office put a major acquisition in the sector under threat. The country's travel industry is the biggest in Europe.

The cartel office in Berlin said it had requested the right to examine the bld by Preussag, the steel and engineering group, for the transport and tourism companies Hapag-Lloyd and TUI.

The cartel office, which in the past has often sought to pursue a tougher line in competition cases than the European Commission in Brussels, said the case should be handled at national level, as the effects of the bid would be predominantly felt in Germany. Preussag's DM2.8bn ($1.6bn) bid last month for Hapag-Lloyd, which is owned by banks and corporate investors, was originally due to be handled by Brussels because of its size.

In particular, the cartel office, which has secured the backing of the federal economics ministry, said the Hapag-Lloyd deal would limit competition in the charter flight and package holiday business. More than 60 per cent of the market would effectively be controlled by a duopoly made up of Preussag and Condor/NUR, subsidiaries respectively of the national carrier Lufthansa and Karstadt, a retailing group, which are also in the process of merging. The cartel office is already considering the Condor/NUR link-up.

The cartel office is also concerned about the presence of shareholders with stakes in both the proposed Preussag-lead venture and Condor/NUR.

Preussag, which is seeking to move out of its traditional base in commodities and focus on its services and transportation businesses, said it was not surprised by yesterday's announcement as the cartel office had expressed early interest in the Hapag case.

The company said the German market was "no island" and that there was already competition from non-domestic travel and tour companies. This would increase following the introduction of the euro, the proposed European currency set to be introduced in in 1999.

Romania seeks finance for reactor

Romanie is seeking financing for the second of five reactors to be built at eastern Europe's sole western-designed nuclear power plant, a nuclear power official said yesterday, Reuters reports from Bucharest.

"Action is under way at present to ettract financing sources for the completion of Cernovoda's second reactor," said Teodor Chirica, spokesman for the nuclear power group at Renel RA electricity authority.

"According to estimates, $750m is needed to complete the work."

The first of five 700-MW reactors planned at Cernavoda on the River Danube, east of Bucharest came on stream last April. The reactors use Canadian-developed technology.

Cernovoda provides about 10 per cent of Romania's power needs and is viewed by the centrist government, which came to power a year ago, as a priority in its campaign to overcome declining crude oil and gas reserves and cut fuel imports.

The project has been co-ordinated by the state-run Renel electricity utility with assistance from e consortium gronping Atomic Energy of Canada Ltd (AECL) and Italy's Ansaldo SpA.

Plant officials suggested earlier this year that AECL would help secure financing for the second reactor, which was 25 per cent complete.

Mr Chirica suggested that Romania might call e tender to find suitable funding for the project.

Greek unions strike over wages policy

By Kerin Hope in Athens

Greece's trade unions will today use a planned 24-hour general strike to put pressure on the country's income policy. The move comes despite government efforts to lower the country's historically high inflation.

The Socialist government plans to limit real wage increases for next year to 1.5 per cent as part of Greece's effort to meet the Maastricht inflation and budget deficit targets for eventually joining the single European currency.

Public-sector workers, including employees at state-owned banks, utilities and Olympic Airways, the state carrier, are expected to join today's walk-out called by GSEE, the Greek trade union federation. The public power corporation has warned of possible power cuts and urged Athens residents to reduce electricity consumption and avoid using elevators.

However, business activity in Athens is unlikely to be seriously disrupted. Few private-sector workers take part in the country's traditional autumn strikes over budget proposals scheduled for November.

Greek workers have received substantive real wage increases over the past three years despite e gradual tightening of fiscal policy. Next year's budget is expected to limit nominal increases in the public sector to 4 per cent, in line with a projected decline in inflation from 4.9 per cent to below 3 per cent.

GSEE has demanded a 9 per cent across-the-board increase on the grounds that real wages are still below 1990 levels. Union officials say they are not convinced that the fall in inflation, now at its lowest level for almost 30 years, can be maintained.

This year's round of strikes reflects public-sector workers' growing job insecurity after a freeze on civil service hiring and attempts to introduce private-sector management standards to public corporations.

The 1998 budget is expected to bring job losses as the Socialists try to hold down government spending by merging or shutting administrative organisations.

CONTRACTS & TENDERS

China to cut rates in bid to boost growth

By James Harding in Beijing

China will cut interest rates today in a move to check tha slowing rate of economic growth and ease the deht burden on state-owned enterprises.

The People's Bank of China, the central bank, yesterday announced an average 1.5 percentage point fall in base lending rates and a 1.1 point cut to deposit rates in response to calls for a boost to the economy.

Earlier this week, the State Statistical Bureau reported that economic growth in the third quarter of this year had slowed to 8 per cent, below the government's target of 9.5 per cent growth for 1997 and the actual rise of 9.7 per cent last year. Gross domestic product grew by 9.0 per cent in the first nine months of this year, the SSB said.

Inflation has also fallen sharply this year. The economic data released this week showed China's retail price index up only 1.3 per cent for the first three quarters of 1997 and at zero per cent for September.

The central bank said the rate cut is "in response to declining prices and is designed to lower interest costs for enterprises, support the reform of state-owned enterprises and promote sustained, rapid and sound national economic development." From today, the benchmark annual interest rate on one-year term deposits will be reduced to 5.67 per cent from 7.47 per cent. The rate for short-term loans of less than six months, for example, will be brought down to 7.65 per cent from 9.18 per cent.

The reductions, the first adjustments this year after two rate cuts in 1996, were broadly welcomed by analysts who expected the move would stimulate the sluggish stock markets as well as reinvigorate the state sector.

China has rapidly curbed the double-digit inflation that peaked in 1994 and Zhu Rongji, vice premier in charge of the economy, has been widely credited for engineering a soft landing. However, the alowdown in the GDP growth rate and the fall in inflation baa prompted concern that China's economic growth may be faltering.

Zhn Rongji: soft landing

China has pledged to accelerate the pace of state enterprise reform and economists calculated the interest rate cuts were intended to ease the potentially painful process of restructuring state industries.

Investors in Shanghai and Shenzhen speculated tbat the loosening of credit policy might also lift the recently lacklustre stock markets. One analyst at Guotai Securities, the domestic stockbroker in Shanghai, said: "This is the government's way of giving an indirect push to tha securities markets."

Share prices fell yesterday ahead of tha announcement, but recovered most of their early losses on rumours of the imminent rate cut. The Shanghai foreign currency B share index closed down 0.85 per cent at 70.33 points and the Shenzhen equivalent closed down 1.02 per cent at 125.55 points.

US nuclear suppliers hover over China

By James Harding in Beijing and Bruce Clark in Washington

When Qinshan Nuclear Power Plant, China's first nuclear power factlity, sealed a multi-hillion dollar contract last year to buy high-technology reactor equlpment, Fred Sperry, president of Westinghouse in China, was Invited to the signing ceremony.

But, he qulps as an observer not a contractor, the deal went to Atomic Energy of Canada Ltd (AECL). Westinghouse, the US energy group, and other American suppliers of nuclear power equipment are barred by the US government from selling its reactor equlpment to China.

Washington has refused to endorse a 1985 nuclear co-operation agreement that would allow nuclear sales to China, objecting to Chinese exports of nuclear technologies to third countries such as Iran and in protest against the 1989 Tiananmeo Square massacre.

But an unlikely alliance of US business and Beijing officialdom hopes the Wbite House is poised to reverse tha policy. One of the few concrete commercial achievements expected from next week's Sino-US summit is approval for sales of US civilian-use nuclear equipment or, at least, a commitment from President Bill Clinton for a lifting of the ban in the near future.

In recent weeks, the US has moved closer to certifying the agreement and this week Robert Einhorn of the US State Department came to Beijing to discuss nuclear co-operation ahead of President Jiang Zemin's visit to the US. But, US officials say, certain conditions must still be met, particularly a written pledge that China will not export nuclear technology to Iran.

Following Mr Einhorn's arrival, China announced that nuclear co-operation with Iran had stopped "because of some disputes over tbe contract", which they hope will be "conducive to progress" on Sino-US co-operation. Privately, Chinese officials say they are "confident" that an agreement is imminent.

Expectations of progress also rose in Washington after 16 senators from across the political spectrum wrote to President Clinton saying they "supported the administration's efforts" to implement the nuclear accord. Conscious that concern over China's alleged exports of missile technology and precursors for chemical weapons is still running high, the seoators said progress on the nuclear front could be a "useful example" for negotiations on other issues.

Newt Gingrich, the speaker of the House of Representatives where anti-Beijing seotiment runs higher than in the Senate, has also made clear he will oot give floor time to any fresh legislative moves against China before the summit. So It seems improbable that Congress will attempt to obstruct the nuclear accord's implementation by changing the precooditions.

While US business in China likes to be seen in step with its governmeot, Westingbouse and others have been advocates in Beijing and Washington for a change in US policy. "We are shooting ourselves in the foot to say that US suppliers cannot provide for the China market, while our competitors in Canada, France and Russia can," says Mr Sperry of Westinghouse.

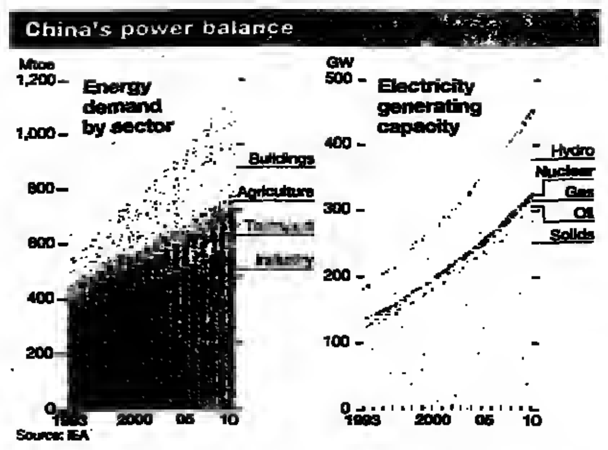
China bas two nuclear power plants, one at Daya Bay in Guangdong, the province neighbouring Hong Kong, and the other at Qinshan in Zhejiang province, south of Shanghai. A third plant at Ling'Ao, also in Guangdong, is under constructioo and authorities in Beijing are mulling plans for a fourth. Nuclear generated power accounts for only about 1 per cent of China's energy supply, which is heavily reliant on coal.

A relatively small and, some say, oversupplied market today, hut future prospects explain Westinghouse's energetic lohbying. Other US companies such as General Electric and ABB Combustion Engineering Nuclear Systems would be obvious competitors in the Chinese market if Washington approves sales of US-made equipment.

Zhang Huazhu, vice-president of the China National Nuclear Corporation, says installed capacity of China's nuclear power stations is scheduled to quadruple hy 2003. By 2020, China is expected to bave increased nuclear energy output to 6 per cent of national electricity generating capacity.

US companies have calculated that the Chinese market for nuclear reactors and related supplies could amount to over $50bn during the next 15 years.

With a hilateral trade deficit growing to an estimated $44hn tbis year, the US administration has been susceptible to arguments that freeing up nuclear sales might make an indentation on the trade imbalance.



The Qinshan plant, a pristine white-wasbed compound that stands out against the soupy, polluted skies and the brown waters that lap the litter-strewn coastline soutb of Shanghai, is evidence of how the nuclear industry can get by using technologies from suppliers outside the US. Lin Deshun, senior engineer and deputy general manager at the domestically built and designed plant, says: "China's nuclear power sector can develop without US equipment. It does not matter where the machinery comes from."

Qinshan has placed its largest orders with Canada'a AECL, he adds, while the Daya Bay plant has sourced equipment from Framatome of France. It represents Chinese hopes of a cheaper, cleaner alternative to coal-fired power. But it also shoulders the concerns of an infant industry – concerns about public safety, waste disposal and the observance of international standards on the handling of civilian-use nuclear technologies.

Mr Lin, like other officials, wants the widest choice of reactor equipment and this includes US technology.

Australian dollar falls on Asian crisis

By Elizabeth Robinson in Sydney

The Australian dollar sank to its lowest level against the US currency in two-and-a-half years yesterday on concerns at the country's exposure to the Asian currency crisis.

The Australian dollar's fall to 71.22 US cents from 72.84 US cents was sparked by a report by Goldman Sachs, ths US investment hank, whicb warned that the recent currency and economic crisis in south-east Asia was likely to result in a "major economic shock" for Australia.

It said that devaluations of Asian currencies – Thai, indonesian, Malaysian and Taiwanese – had led to sharp depreciations against the dollar and would reduce Australian exports. About 52 per cant of Australlan exports go to Asia.

Peter Costello, treasurer, dismissed the report, saying the impact on Australian exports would "hardly be measurable ... "Our biggest trading partners are still Japan, the US, Korea, New Zealand, and of course they are strong economies ... that won't be affected."

The report said: "Initially, the Asian currency devaluations will substantially cut import demand from the region as consumer spending recoils in reaction to high real interest rates and the reduced purchasing power of their currencies."

Since the Asian currency crisis hegan, Mr Costello has stressed tbet Australlan exports to the region have been growing up to 20 per cent a year, limiting the impact of any downturn.

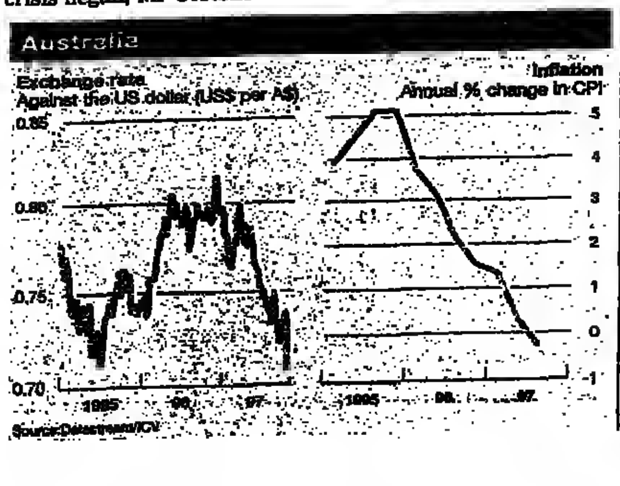
The Goldman Sachs report suggested Australia was unlikely to achieve its target of 4 per cent economic growth in 1998. Government figures published yesterday showed inflation falling to its lowest level in 35 years, which John Howard, prime minister, said boded well for economic growth.

The *Goldman Sachs* report said continued falls in inflation had "largely blunted the eoonomic effects of the Reserve Bank of Australia's 250 baais point cut in short-term interest rates in the past 18 months".

Yesterday's publication of the headline consumer price index for tbe September quarter showed a 0.4 per cent fall, tha second consecutive drop; it was down 0.3 per cent over the year. But the underlying rate rose 0.3 per cent in the quarter and 1.5 per cent over the year.

Tha fall in the headline rate was largely due to lower mortgage rates and lower health costs after a scheme came into effect in July to encourage people to take out private health insurance.

With underlying inflation at 1.5 per cent, well below the RBA's target range of 2-3 per cent, many observers expect another rate cut by the end of the year. Mr Howard said low inflation "bodes well for very strong economic growth, and that bodes well for employment."



Commonwealth may give regime chance to fulfil pledge to hand over to elected civilian government in a year

UK warns Nigeria over summit gatecrash threat

By Michael Holman and David Wighton

Britain yesterday warned Nigeria that a government delegation planning to fly to the Commonwealth summit in Edinburgh would be barred from entering.

"Members of the Nigerian regime cannot enter the United Kingdom because of the visa restrictions imposed by the European Union in early 1996," said a Foreign Office spokesman.

It was not clear last night whether Chief Tom Ikimi, the country's foreign minister, would press ahead with his threat to gatecrash the summit by flying direct from the Nigerian capital of Abuja to Edinburgh, where the biennial heads of government meeting opens tomorrow.

In a letter to Chief Emeka Anyaoku, the Commonwealth secretary general, he said the delegation would demand a hearing before the eight-member Commonwealth ministerial action group, which will be recommending what action to take against the regime.

The outcome of the summit, however, is likely to be as favourable as the Nigerian regime could have hoped. Its vigorous lobbying of African Commonwealth members has helped ensure it will not be expelled from the association, while Britain is reluctant to do more than continue its existing package of modest measures, which include a visa ban and an arms embargo.

The probable outcome is that Commonwealth leaders will give the military regime the chance to fulfil its pledge to hand over to an elected civilian government by October next year.

This timetable is a year longer than the two-year grace period the Commonwealth originally set when it suspended Nigeria from membership in November 1995, following the execution of Ken Saro-Wiwa and eight other political activists.

Commonwealth officials stressed yesterday that they were determined not to let the Nigerian issue overshadow the summit.

Speaking at the opening of the Commonwealth business forum in London yesterday, Mr Tony Blair, the British prime minister, called for "a vision for a new Commonwealth".

On Monday, Commonwealth leaders are expected to sign the Edinburgh Declaration, a statement of economic principles which will back liberalisation and free trade balanced by social justice. The declaration is designed to stand alongside the 1991 Harare Declaration on political principles.

On the environment, Mr Blair is hopeful that the Commonwealth can reach a consensus on climate change ahead of the Kyoto summit at the end of the year.

In his speech to the Commonwealth Business Forum yesterday, Mr Blair confirmed that the government planned to sell a majority stake in the Commonwealth Development Corporation (CDC). He said the government would retain "a substantial minority holding" in the development finance agency and would continue to set a framework for its operations "in order to preserve its unique character and special skills".

The privatisation, which will require legislation, could release up to £1bn of extra funds for the development budget, it emerged yesterday. The figure will depend largely on how the corporation's £765m of government debt is restructured. The loans could be repaid to the Department for International Development before the CDC is floated.

Alternatively, the loans could be converted into equity prior to privatisation which would release perhaps £500m from the sale of a majority stake. The market would expect to value the company at a significant discount to the book value of its investments which was £1.3bn, excluding the government debt, at the end of 1996.

Lex Comment, Page 21

Blair called for 'a vision for a new Commonwealth' at a speech in London yesterday

'What elections? Everyone in my family is dead'

Roula Khalaf reports from Algeria as a people living with terror prepare to go to the polls

In Rais, site of Algeria's worst massacre, the idea of voting in today's local elections seems surreal. Survivors who in August watched their families shot or hacked to death or are still paralysed by the shock. "What elections? Everyone in my family is dead, I don't even see a point in living," said 25-year old Mohammed.

After presidential and legislative elections, and a constitutional referendum that diluted the powers of the lower house of parliament, Algeria's army-backed government is calling on 16m voters to elect local and *wilaya* (department) councils. From those elected, some will make up two-thirds of Algeria's new upper house, with the rest to be picked by the president. Today's poll will complete the institutional edifice the government is erecting to legitimise its rule, since the army stepped in to cancel an imminent election victory by the *Islamic Salvation Front* in 1992.

But if Algerians are greeting the elections with indifference, it is because the promises that elections would bring peace seem increasingly hollow.

In the past few months the butchery in Algeria has reached unprecedented levels. Rais, where 98 people died according to the government, and more than 200 according to survivors, was the first of three mass slaughters near on the outskirts of Algiers.

The story of Algeria's violence is that of people trapped between terrorists who force them to provide money and shelterand the government which punishes them for doing so.

They face death in the most savage way, which often appears *incomprehensible* to *westerners* but is less mysterious in Algeria's historical context: the legacy of a sometimes brutal French occupation, and a war of independence in which 1m Algerians perished, some in slaughters not unlike today's; and the legacy of an authoritarian regime which followed and cemented in many Algerians a deep feeling of "hogra" – the sense of being resented, despised and marginalised by the ruling regime.

Rais is a small town on the edge of a mountain. Here, on an August night, 24-year-old Abdelrazak watched his aunt shot in the head and his grandmother burned to death by a group of bearded men accompanied by some women. They broke into his house and threw in explosives. They slit the throats of those who were near and shot at those who were far. While they killed, others, including the women, looted. There were perhaps as many as 150 of them; some encircled the village while their companions killed.

Abdelrazak and other survivors say they were forced to give the armed gangs money a year and a half ago, but since the army moved into the area, the terrorists stopped the racketeering. Earlier this year, however, the people of Rais feared attack as the family of a member of an armed group came back to live among them.

Mounir Alish, 22, says the people who felt threatened had asked the government for arms but were told they could not be trusted. Other survivors say not all the families agreed to taking up weapons to resist the armed groups.

Government officials, who insist the war can only be won when people turn against the terrorists, say the families attacked did not want to take up arms, that they used to help the terrorists but stopped doing so and were punished by the armed groups. They say the government, believed to have provided arms to as many as 200,000 people organised in civilian self-defence militias, cannot hand out weapons to people they suspect of having aided the armed groups.

The survivors of Rais blame the armed groups for the killing. But they also resent the authorities' failure to protect them. The Algerian army, they say, patrols the Rais region and was in Rais the night before the massacre. But during four long hours of slaughter, as people cried out for help, bombs exploded, and houses lit up in flames, no one came to their rescue.

For one survivor, the security forces' failure to respond, and the ease with which the armed groups arrive, leave, and encircle the hamlet, suggests a lack of determination to stop the killings. maybe there is a hand behind these killings, he says.

Abdelrazak offers one explanation: "I fled, I ran and I could find the terrorists everywhere," he said. "I reached the army post about 2km away and they were firing, they were also being attacked."

Government officials resent accusations that security forces turn a blind eye to the violence. They say terrorists travel in small groups which are difficult to detect and join up at a massacre site, then place a circle of mines around the village. They say the army is still learning to handle this tactic and that soldiers have been tricked in the past into intervening in supposed massacres only to be ambushed. They point to the army operations under way which they say are destroying terrorist bases and bomb-making facilities.

In Rais, as in other massacre sites, neither side has won. The terrorists will not find recruits in the region. And the survivors have lost faith in the government and in the army's ability to shield them from terror.

TB out of control warns WHO

By Daniel Green

Tuberculosis is virtually out of control in many places around the world, according to a three-year study published yesterday by the World Health Organisation, the US Center for Disease Control and Prevention and two other agencies.

The report, which the WHO described as "unprecedented", identifies emerging "hot zones" where TB is resistant to antibiotics and "people are nearly helpless to protect themselves from drug resistant strains of the disease."

These hot zones include India, Russia, Latvia, Estonia, the Dominican republic, Argentina and the Ivory Coast. Latvia had the highest incidence of TB which is resistant to multi-drug treatment.

In these countries, tuberculosis is "often resistant" to the commonly prescribed antibiotics, isoniazid and rifampicin.

"This makes the disease incurable for anyone who does not have access to the most sophisticated and expensive healthcare," said the World Health Organisation.

Resistance to drugs is the result of poor treatment, said the World Health Organisation, which describes *the everyday* methods of treatment in some parts of the world as "therapeutic anarchy".

Resistance arises when those with TB do not complete a course of antibiotics, or use too little of the drug. This can leave alive the bacteria, which then become resistant to antibiotics.

The World Health Organisation is tackling the problem with a programme to improve the way TB is treated.

The WHO urged pharmaceutical companies to develop new anti-TB drugs, to improve the effectiveness of its attempts to ensure that no bacteria survive treatment.

CONTRACTS & TENDERS

Department of the Environment, Transport and the Regions

An exciting opportunity for partnership with the Department of the Environment, Transport and the Regions (DETR) in maintaining and expanding Constructionline, its on-line register of approved construction consultants and contractors.

The DETR is seeking a partner to develop Constructionline, its approved lists of works contractors and consultants, to its full potential. There is considerable scope for an enterprising partner to extend the client base from central government and its agencies, to encompass the wider public sector including local authorities, police and fire authorities, and NHS Trusts - a total potential market of over 3,000 clients. The Department is also keen to explore the opportunity for opening up these lists for use by the private sector in its campaign to improve quality in the building industry.

The selected partner will be required to market the services vigorously as well as provide high quality data collection, register administration - including decision on admission, database management and support to service users. The partner will need to have the full confidence of users and the construction industry, and be prepared to work in collaboration with the Department in meeting its policy aims.

Interested organisations are invited to apply to Anthony Maude at the address below for an information pack and a pre-qualification questionnaire. The contract will be in the form of a public service concession contract as defined for the purposes of regulation 2(1) (e) of the Public Services Contract Regulations 1993.

Requests for an information pack may be made by telephone, fax or in writing and must be received by 14 November. Completed pre-qualification questionnaires must be received by 28 November.

Please note that organisations listed on the database, or with a commercial or other interest in organisations listed on the database, will be required to demonstrate how they would avoid any possibility of conflict of interest.

Dr A J S Maude
PPSD, P1/160A
2 Marsham Street
London, SW1P 3BE
Tel: 0171 276 0456 (Alternate 0171 276 0478)
Fax: 0171 276 0450

Constructionline

Asians hit at Brussels fax duties

By Neil Buckley in Brussels and Michiyo Nakamoto in Tokyo

Asian electronics groups yesterday reacted angrily to a European Commission decision to impose anti-dumping duties on imports of personal fax machines from Japan and six other Asian countries.

European commissioners backed a recommendation from Brussels' anti-dumping unit to impose the duties of up to 89 per cent for six months, despite the lack of a clear opinion in favour from EU member states.

Ministers must vote on whether to convert the provisional measures into definitive, five-year duties after six months, and the Commission could face a battle to get the measures endorsed.

The duties stem from a complaint by Philips, the Dutch electronics group, that Japanese and other Asian manufacturers were dumping personal fax machines in the EU at below-cost prices.

A Commission investigation backed the complaint, finding dumping margins of 22-122 per cent. Imports from countries investigated had risen 72 per cent between 1994 and 1996, while sales by EU makers fell almost 15 per cent, it concluded.

Several EU states were unhappy with the Commission analysis, especially the definition used: personal faxes below 5kg. They argued that as faxes became smaller and lighter, more sophisticated office machines could be caught by the duties.

Asian manufacturers said this would hinder their ability to introduce small, advanced machines into the EU, clearing the way for European manufacturers.

Brussels has tried to answer such concerns by refining the definition to fax machines using thermal paper. Officials suggested further fine-tuning was possible. But Asian producers argued they would suffer severe damage.

"The European export market for these products is almost as big as our largest export market in the US. If the duties are imposed, Japanese companies will not be able to sell their machines in the EU," said Toru Matsui, vice-president, terminal equipment, at the Communications Industry Association of Japan.

Japanese makers face 34.9 per cent duties, with 58.1 per cent duties for China; 33.8 per cent for Korea; 39.5 per cent for Singapore; 36.6 per cent for Taiwan; 22 per cent for Thailand, and 89.8 per cent for Malaysia.

Matsushita, one of Japan's biggest manufacturers, said it would be "almost impossible to continue business as usual" in the EU. It might have to consider setting up manufacturing activities within the EU or US if the duties became definitive.

Digital hunt for video pirates

By Alice Rawsthorn

The music industry is considering plans to create an international digital detection team based in London to comb the internet and other digital communications networks in search of copyright abuses.

Digital piracy, whereby internet sites either sell recordings online or relay copyrighted material such as songs and video clips without the rights owner's permission, is a growing problem for the world's record companies.

The situation is worst in North America, where internet penetration is highest. Last year, the Recording Industry Association of America (RIAA), which represents the US record companies, established a digital detection team at its Washington headquarters.

This summer, the RIAA took out injunctions against three pirate internet jukeboxes, from which consumers were downloading tracks free of charge. All three pirate jukeboxes immediately closed down.

Record companies are now concerned about digital piracy spreading to other countries, as internet usage increases. The International Federation of the Phonographic Industry (IFPI), the London-based body which represents the global music business, is formulating proposals to set up a digital detection unit to crack down on online copyright abuse on a worldwide basis.

Nic Garnett, chief executive, said he planned to present proposals for the unit at next week's IFPI board meeting in Rio de Janeiro.

The planned crackdown on online piracy comes as conventional music piracy on compact disc and cassette is rising after reaching an unprecedented $5bn worldwide last year.

The IFPI will also discuss proposals to conduct an industry-wide analysis on how digital networks, such as the internet and high-speed telecommunications systems, will affect the delivery of music to consumers in the future.

One option is the development of technology to allow music purchases on a transactional basis by buying the right to listen to a recording four or five times.

Dutch sugar ruling leaves EU feeling sour

By Gordon Cramb in Amsterdam and Neil Buckley in Brussels

A group of small, dry islands in the Caribbean has thrown a spanner in the works of the European Union's decision-making machinery, embarrassed one of the EU's founder members, and set what may turn out to be an important legal precedent.

A sugar mill in Aruba has won a court injunction in The Hague banning the Dutch government from going along with a hard-won compromise agreement earlier this month over the so-called Overseas Countries and Territories – the scattared remains of British, French and Dutch overseas colonies.

As a result, the Netherlands, having bowed to demands from the European Commission and other member states that the free flow of rice and sugar from the OCT countries into the EU should be capped, finds itself banned from honouring its decision.

So dry and small are the Dutch Antilles and Aruba that rice and sugar are not even grown in commercial export quantities.

But the EU's 1991 association agreement with the OCT, intended to stimulate their economic development by granting unlimited, tariff-free access to EU markets for agricultural products, also allowed them to process produce imported from elsewhere in the region and ship it to Europe.

The result was an unexpected six-fold increase in rice exports from OCTs from 60,000 tonnes to almost 360,000 tonnes. The main EU producers, Italy and Spain, complained that this was destabilising the European rice market. It was also unfair since much of the rice was being grown and processed elsewhere, and with the OCT countries used merely as a transit point to gain tariff-free access.

The European Commission imposed an emergency cap of 160,000 tonnes on rice exports this year – the same limit endorsed in slightly modified form by EU ministers this month, as part of an overall "mid-term" revision of the OCT agreement.

The deal added that merely bleaching rice was insufficient to grant the commodity the status of OCT origin. It imposed a similar cap on imports of sugar of 3,000 tonnes – based on the last known shipment figures, for the year to September 1996.

But Emesa Sugar (Free Zone), which brought the complaint, began operations only this April, purchasing its raw sugar from Trinidad and Tobago and milling nearly that much per month.

The EU's own sugar production amounts to some 15.5m tonnes, at a price of about three times that prevailing on the world market, according to a survey conducted by the Erasmus University in Rotterdam and cited by the court in its definitive ruling last Friday.

Emesa argued that the effect of the EU ruling was to restrict its ability to export both to Europe, and the rest of the world market.

"This matter is certainly urgent for Emesa which is threatened with considerable and irreparable damage," the court found. In two rulings, it said the Dutch government was wrong to have changed its opinion after long opposing the deal, should not vote in favour again, or even abstain – which would allow the other 14 EU members to vote the deal through.

The Dutch government is now appealing against the decision. The EU may therefore not be able formally to adopt the deal before the expiry of the current export limits at the end of November – forcing the European Commission to step in with more emergency temporary measures.

The ruling could also set an important precedent for other small companias which fancy challenging the supremacy of EU law.

"For a judge to interfere in a government's foreign policy, as in this case, is really quite something," remarked one European Commission official.

Ships, glass and open skies keep US-Japan trade friction going

By Nancy Dunne in Washington

The US Federal Maritime Commission (FMC) yesterday was close to deciding whether to accept partial payment on $4m of fines imposed on Japanese shipping companies to force Tokyo to adopt reforms in its port management system.

The maritime dispute is one of three US-Japan trade disputes under negotiation this week. Negotiators yesterday completed talks in Tokyo on flat glass, with US officials complaining that the Japanese distribution system remains closed to foreign glass producers through a sophisticated system of interlocking relationships.

Northwest Airlines' view of Japan's "willingness" to open its airports to US carriers as portrayed in newspaper advertisements

Another set of negotiations, on a bilateral aviation accord, entered their third day in Washington.

The showdown over shipping remained the most fractious of the three and was precipitated when the FMC, an independent body, prepared to seize Japanese ships as they entered US ports for not paying $4m in fines.

This alarmed the administration, which can only deter FMC action by invoking a waiver on grounds of national security. The commission, on the other hand, argued that action was warranted as it had pursued Japanese port reform for 14 years, according to Steve Clemons of the Economic Strategy Institute.

Talks begun last year produced no progress, and it was not until the ship seizure was threatened last week that Tokyo got down to serious talks, he said. Agreement was reached on Monday, but the FMC has been insisting on payment of fines due in September.

"The strong inclination of the commissioners is not to waive the fines," said Mr Clemons. "But they will review the results [of the agreement] and decide what to do next."

Japan has said the fines violate the US-Japan Treaty of Friendship, Commerce and Navigation, and is demanding they be completely withdrawn. A compromise is likely to be partial payment of the fines, if the commission believes the deal will lead to improved port practices in Japan.

Japanese negotiators hope to conclude talks this week on a four-year interim aviation deal but are haggling over what the US calls its "safety net" – an agreement to pursue further liberalisation in four years.

Northwest is the only US airline demanding total liberalisation from the Japanese. United, American and Delta have been willing to accept less than full "open skies". Nine powerful congressional committee chairmen have endorsed Northwest's position that anything less than open skies is "a cave-in" to Tokyo.

Although Tokyo has promised US airlines extra flights, it is by no means clear that it actually has sufficient slots to offer to make the flights possible.

One official also said the two sides were still far apart on the amount of flights per week to be increased for the four-year period for US carriers with limited rights under the existing bilateral treaty – American, Continental and Delta airlines.

US officials yesterday said Japan was lagging in opening its $5bn flat glass market to foreign companies, but Japan insisted it was abiding by a 1995 agreement on the issue. A US industry official said an improvement in sales had proved short-lived.

Steel makers face shake-up

By Andrew Bolger, Employment Correspondent

The world steel industry faces further changes in the size and skills of its 7m workforce because of technological change, environmental pressures and withdrawal of state ownership, according to the International Labour Office.

An ILO report says the biggest job losses have occurred in Europe. "In the European Union, the total number of steel jobs dropped by more than 65 per cent (from 991,000 to 326,000) between 1975-95.

In France and the UK, steel employment fell 75 per cent and 80 per cent respectively, while production fell by 16 per cent and 14 per cent. "In the US and Japan, 51 per cent and 48 per cent of steel jobs were lost, against falls in production of, respectively, 10 and 1 per cent."

Workforce reductions have also affected countries of the former USSR. In the Russian Federation, 10 per cent of steel jobs have been lost in the past five years. But "this may just be the start".

The federation's ministry of industry says some 310,000 jobs will have to be shed over the next five years to keep Russian steel competitive. This represents more than 40 per cent of the 705,000 steel jobs existing last year.

"The huge social costs of increased competitiveness that have been paid in western Europe still have to be quantified and funded" in much of Eastern Europe and the former USSR, it adds.

A new generation of computer-controlled "mini-mills" employing far fewer workers had proved much more competitive than the huge integrated steel mills that were the norm in the past.

"British Steel's Trico mini-mill in the US has a workforce of less than 600 producing 2m tonnes of steel a year; in the UK 4,000 workers directly involved in steel-making produce 3m-4m tonnes over the same period."

Consumption in industrialised countries is expected to remain static or decrease slightly in the coming decade, but the report predicts strong growth in Asia, notably China, and Latin America.

With nearly 3.2m steelworkers, China has the largest workforce. China, the Commonwealth of Independent States and India together account for about 70 per cent of the industry's total labour force, but only 30 per cent of steel output.

The ILO report will be discussed next week in Geneva at a meeting of employers, unions and delegations from 18 countries.

Iron & steel industry

Country	1975	1996
	000 employed	
Australia	35	12*
Belgium	61	23
Brazil	124	80**
France	157	39
Germany	227	86
Hungary	64	14
India	200	280**
Italy	96	39
Japan	324	155
Poland	156	92
Spain	91	24
Russia	838*	705
South Africa	109	80
UK	191	37
US	470	237

Source ILO * 1993 ** 1995

NEWS DIGEST

WTO work to rule threat

Staff of the World Trade Organisation yesterday threatened to stage a "work to rule" as WTO ambassadors again put off a decision on de-linking staff pay and conditions from the UN system. The WTO general council plans to meet again in November. Gretchen Stanton, chair of the staff association, said a work to rule could have significant effects on the activities of the WTO, including preparations for the next ministerial conference to celebrate 50 years of the open trading system. Staff crowded into the general council room to support their claim for an independent WTO secretariat which would no longer be governed by UN rules and procedures. Renato Ruggiero, WTO director general, also spoke in favour of the move which the secretariat argues would establish a fairer, more flexible staff structure than UN rules allow.

The WTO is not formally part of the UN system and most WTO governments support the call for an independent secretariat. But several leading traders, including the US, Britain, France and Germany, have blocked a consensus to make the change.

● The general council yesterday approved the WTO's budget for 1998 of SFr116m ($79m), little changed from the previous two years. It agreed to grant observer status to Ethiopia as the first step towards eventual membership and established a working party to draft membership terms for Andorra, the tiny mountain principality between Spain and France. *Frances Williams, Geneva*

■ CAR PLANT DEALS

Skoda signs Indian pact

Skoda Automobilova, majority owned by Volkswagen of Germany, has signed an agreement with the Indian state of Maharastra to build a $300m car assembly plant. Skoda said it hoped to select a site by the end of this year and that the plant would produce 50,000-60,000 Felicias a year.

The Czech carmaker is also planning to spend DM80-DM90m ($45m-$51m) to reopen an old VW plant in Sarajevo, Bosnia, to produce 35,000 models a year. This venture will be owned 58 per cent by VW and 42 per cent by the Bosnian company UNIS. Skoda is also looking to invest in a 50,000-vehicle plant in Russia.

Skoda also has an assembly plant in Poznan, Poland, which is set to produce 30,000 models this year. Skoda worldwide sales in the first nine months of this year rose by 28 per cent to 243,500, of which 220,600 were Felicias. The company aims to sell some 340,000 cars in the full year. *Robert Anderson, Prague*

■ FARM EXPORT SUBSIDIES

Hungary granted waiver

Hungary was yesterday granted a waiver from World Trade Organisation rules on agricultural export subsidies in settlement of a long-running dispute with the US, Argentina, Australia, Canada, New Zealand and Thailand. The dispute arose in spring 1996 when the six countries complained Hungary was not complying with its commitments to reduce export subsidies under the Uruguay round farm trade agreement.

At the same meeting, India said that it was close to a deal with six WTO members over the phasing out of import restrictions on consumer goods. The US, Australia, Canada, New Zealand, Switzerland and the European Union formally filed WTO complaints against India this summer after failing to agree on a timetable for eliminating the controls. In June, New Delhi offered to phase out restrictions over six years, rather than the original nine years. *Frances Williams, Geneva*

US may spend $1bn to fend off cyber attacks

By Nicholas Denton
in San Francisco

The US is considering a $1bn-a-year programme to defend information networks after a presidential commission warned of emerging "cyber threats" from computer hackers and hostile powers.

The plan is designed to guard against attacks such as the recent flood of electronic mail messages originating in Estonia and Australia which caused serious problems for compnters at Langley Air Force Base and other government sites.

"While America's infrastructure is robust and resilient, the president believes it is important to act now to ensure that America's economic prosperity and national security is protected against any potential fnture threat," the White House said yesterday.

The initiative comes in response to a report by the year-old commission which found that break-ins to vital computer systems could present as much of a threat as traditional terrorist tactics.

In a summary of the report released yesterday, the commission said: "Today, the right command sent over a network to a power generating station's control computer could be just as effective as a backpack full of explosives, and the perpetrator would be harder to identify and apprehend."

"The rapid growth of a computer-literate population ensures that increasing millions of people possess the skills necessary to consider such an attack."

The US, which spends an estimated $250m on information security and other infrastructure assurance, should donble the programme and make further 20 per cent annual increases for the next five years, according to the commission. The commission came under immediate attack from privacy advocates concerned the report may give cover for employers to bring in lie detector tests for employees involved in information security.

Most computer hacking is relatively harmless, conducted by hobbyists motivated by a desire not to bring down vital systems but simply to demonstrate their technical virtuosity.

And their infiltration of important computer networks is usually possible, not because the networks are inherently vulnerable, but because systems administrators or users have left passwords in locations easily accessed by outsiders.

In 1994, a UK hacker gained access to Rome Laboratory in New York and used it as a base for attacks on US military sites. The commission said another break-in had damaged the computer system which manages emergency calls in the US.

The worst single financial loss disclosed to date is that suffered by Citibank, which has still not recovered $400,000 of the funds drained from client accounts by computer experts based in Russia. Although there have been few cases as serious as this, it is hard to judge the true extent of the threat because many unauthorised intrusions remain unreported for security or business reasons.

The commission forecast that hacking would evolve from a nuisance into a means by which terrorists or hostile nations could conduct "information war" against the US. "Somebody with serious intent to do harm is bound to arise in the future," said Robert Marsh, the retired general who headed the commission. "It is clear that there is hardly any nation today that would seek to defeat the US on the battlefield."

EU to probe Boeing deal with Delta

By Michael Skapinker,
Aerospace Correspondent

Karel Van Miert, the European Union competition commissioner, yesterday ordered an inquiry after Delta Air Lines of the US said it had appointed Boeing its exclusive aircraft snpplier for 20 years.

Boeing this snmmer agreed to drop the exclusivity clauses from three supply agreements with US airlines. This was one of the conditions Mr Van Miert had imposed in return for EU approval of Boeing's takeover of McDonnell Douglas, also of the US.

Bnt Delta said yesterday it had signed a final agreement to buy up to 644 aircraft from Boeing in the next 20 years. Delta has placed firm orders for 106 Boeing aircraft, with a list price of $6.7bn. It has taken options on 538 more aircraft. Delta said the agreement provided that Boeing would be its sole supplier of new aircraft in that time.

However, in deference to the European Commission, Delta said Boeing would not enforce the exclusivity provision unless Brussels permitted it to do so. It also said that the 20-year agreement was subject to certain exceptions. This is understood to mean that Delta can buy aircraft from other suppliers if Boeing does not manufacture a snitable model.

This implies that if Airbus Indnstrie proceeds with plans to build a 550-seat aircraft and Boeing does not, Delta can buy the large aircraft from the European consortium. However, this exception was part of the original exclusive agreement to which Mr Van Miert objected and Delta does not, at present, have plans to purchase 550-seat aircraft.

The Commission would examine the Delta-Boeing contract to see whether the exclnsivity clanses remained.

Companies are slowly embracing a campaign to get people into jobs

US works to cut welfare lists

Corporate America is only slowly embracing President Bill Clinton's welfare reforms. But one year after the president signed the programme into law, there are now some encouraging signs.

By the beginning of this month, most states had met the requirement that they have at least 25 per cent of their welfare recipients in jobs or some kind of training – a target set as part of the new law. In the first year, welfare rolls shrank by around 1.4m people nationally – no small schievement.

But less than half the states met a tougher goal requiring that there should be workforce participation by at least 75 per cent of all two-parent households receiving aid.

Behind these numbers lies a varied and sometimes tentative response from much of the corporate sector, which will ultimately have to provide many of the jobs if the US's 4m welfare recipients are to move into the labour force on a permanent basis.

A recent Coopers & Lybrand survey of nearly 450 chief executives at the country's fastest growing companies shows an impressive 60 per cent thought they would be interested in partnering other businesses to help welfare recipients find formal jobs.

Bnt only 26 per cent bad actually taken steps in this direction.

Another study suggested that even supportive executives were wary of welfare recipients' attitudes to workplace demands.

The main organisation seeking to drive up those numbers is the Welfare to Work Partnership, an independent Washington-based organisation founded earlier this year.

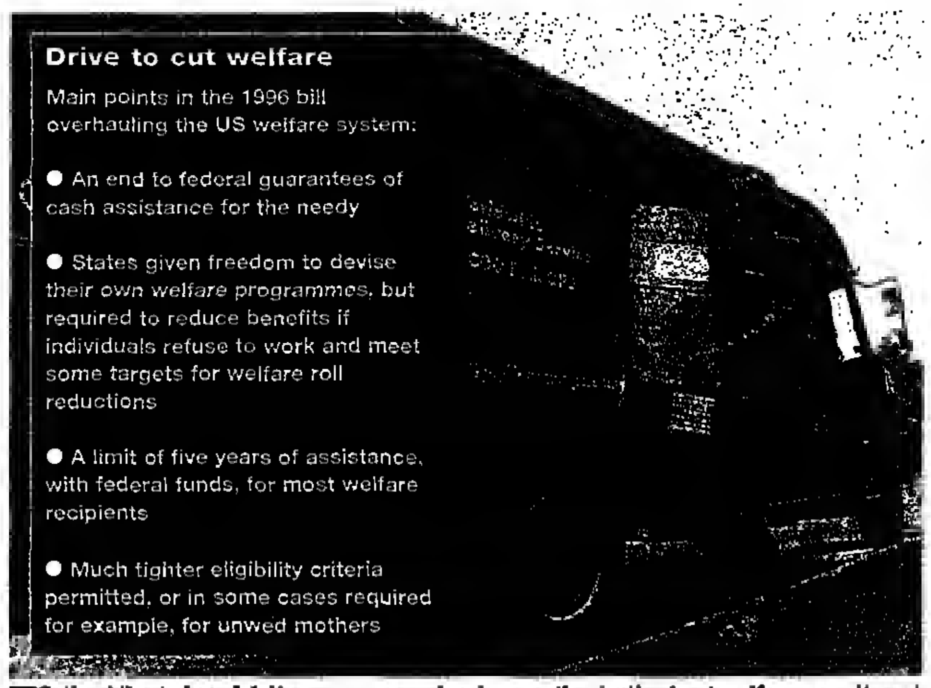
Eli Segal, its president, is optimistic about the partnership's goals, but realistic about the sales job ahead.

The partnership, be says, recognises that hiring welfare recipients will have to be a "smart solution for business" if it is to succeed. It will probably also have to capitalise on the tight labour markets which at present exist across much of the US, driving unemployment rates to as little as 2 per cent in some areas.

"This is a dash, not a marathon," he says.

To date, the partnership can point to over 2,100 companies which have expressly signed up to its goals – that is, the hiring of former welfare recipients without displacing existing workers.

According to Mr Segal,



UPS, the Atlanta-based delivery company, has been enthusiastic about welfare recruitment

Getting through to smaller businesses may be a problem, writes Nikki Tait in Chicago

these companles range across all sectors, and, surprisingly, are not concentrated solely in areas of acute labour shortage.

But Welfare to Work still has no overall figures for the number of former welfare reclpients employed by these companies, nor – perhaps more pertinently – on how long-term their employment has become.

Meanwhile, at the individual company level, attitudes seem to vary sharply. For a few organisations, former welfare reciplents are already a useful labour pool.

The classic case is UPS, the "Big Brown" delivery company, which acknowledges that its need for relatively unskilled workers in urban areas has caused it to recruit from this sector for more than two decades.

Since the political spotlight focused on this area in 1996 and programmes became more formalised, the Atlanta-based company – which employs over 300,000 people in total – estimates that it has engaged around 2,500 former welfare recipients.

While that is probably the largest single corporate recruitment programme, a number of other big employers, also fairly dependent on "blue collar" labour, are following a similar tack.

For instance, United Airlines, the big Chicago-based carrier, says it has made 388 welfare-to-work hirings this year, and is close to its target of 400 by the end of 1997. The longer-term objective is 2,000 by the end of the decade.

Like UPS, UAL works mainly through local social service and non-profit intermediary agencies in such cities as Denver, Miami, Chicago or San Francisco which pick out potentially suitable applicants.

But pushing welfare recruitment out into wbolly white-collar industries appears to be a slower and more painstaking task. Again, there have been some successes.

Wildcats, a New York-based non-profit intermediary organisation, has run basic training programmes for Smith Barney, the Wall Street brokerage. The result has been been full-time jobs for about 40 people over the past 18 months.

According to Wildcats' Amelia Betanzo, these are mainly clerical positions, but still offer incomes in the range of $22,000-$28,000 a year. "People are getting careers," she says.

But even if Ms Betanzo admits that not too many Smith Barneys are around at present, "I'd rather call them a pioneer than an exception," sbe says gently.

Other predominantly white-collar companies support this view, conceding they do not have the ability to hire at the same rate as transport, food service or retail groups.

For example, Monsanto, the St. Louis-based biotech and agriprodncts group, which was one of the five companies which originally backed the Welfare to Work partnership, says its demand is focused on relatively skilled labour and that it will inevitably have to move more slowly.

A second question mark hangs over how deeply into the welfare pool such schemes will be able dig.

Marriott International, the hotel company which was one of the pioneers in welfare hirings, tightened screening standards earlier this year, admitting there was a limit to the number of tongher welfare cases it could take on.

Getting through to smaller companies may be another problem.

While 70 per cent of Welfare to Work's corporate backers employ 500 people or fewer, the Coopers & Lybrand stndy found that larger companies were generally more receptive to welfare hirings.

At businesses employing between one and nine people, 46 per cent of chief executives expressed interest in the welfare to work schemes; in businesses with over 500 employees, this percentage rose to 74 per cent.

Finally, there is the simmering issue of how sustainable jobs for former welfare recipients may be in the future. Mr Segal is the first to acknowledge the potential problem: "We recognise that last hired is first fired," he says.

This issue came to the fore recently when UPS faced a big strike, and the Teamsters' union won a commitment from the company to more full-time jobs, at the expense of more numerous part-time positions. Recent welfare hirings, it was feared, could be the first casualty.

So far, the company claims, that outcome has been avoided. Seasonal job changes, in particular the traditional loss of student labour as school terms restarted, facilitated the adjustments.

NEWS DIGEST

Car ventures to grow in China

The two biggest US carmakers yesterday announced plans to extend their operations in China, following the formal signing of agreements with Chinese officials in New York.

General Motors, which has been among the most aggressive western vehicle manufacturers in its expansion plans in the People's Republic, said it would assemble 18,000 cars a year through a joint venture with its existing partner in Shanghai. The agreement calls for GM to ship kits for Buick cars to China, where they will be assembled and sold in China and elsewhere in Asia.

Ford Motor, meanwhile, said it had reached an agreement to build engines through a joint venture based in Nanjing.

The new venture is intended to build 150,000 engines a year with a capacity of 1.8-2.3 litres. The engines would initially be used in vehicles built by Yuejin Motors Group, Ford's joint venture partner for the new engine plant, the US company said. *Richard Waters, New York*

■ SAO PAULO

Unemployment reaches record

Unemployment in metropolitan São Paulo during September reached its highest level since records started in 1985, according to Dieese, a respected labour research organisation. It said total unemployment in the city was 16.3 per cent during the month, equal to about 1.41m people. Some 48,000 jobs were lost in the month, including 39,000 in the industrial sector; 12,000 were created in the retail and wholesale sector and 22,000 in services.

Marcelo Terrazas of Dieese said the figures reflected a slowing down in the economy, with retailers and wholesalers either cancelling or postponing orders usually placed in September and October for the busy year-end period. *Jonathan Wheatley, São Paulo*

■ VENEZUELA APPROVAL

Sidor stake to be sold

A committee of Venezuela's Congress has approved the sale of a majority stake in the state-owned steel company Sidor, paving the way for its privatisation before the end of the year.

The government hopes to have the contract approved by Congress' full assembly by the end of the week. Alberto Poletto, head of the Venezuelan Investment Fund, the government privatisatioo agency, said the sale of Sidor could then take place in the first week of December.

The congressional committee modified the contract, prohibiting the future owner of Sidor from cutting the workforce for a year and requiring a two-year retraining programme. *Raymond Colitt, Caracas*

■ FAST-TRACK

Blow to Clinton's hopes

President Bill Clinton's bid for new trade negotiating authority appeared to be in trouble yesterday as a bold plan to push the legislation through the Senate, before going to the House, was caught up in end-of-year turmoil.

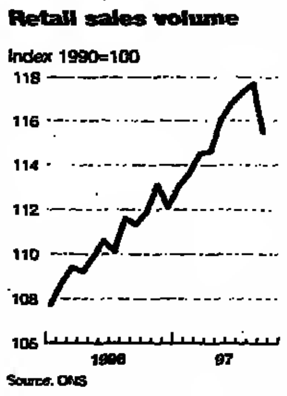
Traditionally, trade bills must first go through the House, but it is possible for the Senate to vote oo a bill first and hold up final passage until a House bill passes.

However, the path through the Senate is riddled with procedural problems.

Tom Daschle, Senate Democratic leader, has vowed to sttach campaign reform to every bill which appears in the Senate and will not make an exception for trade legislation. *Nancy Dunne, Washington*

Death of Diana, Princess of Wales, contributes to largest decline since 1991

Big fall in retail spending



By Robert Chote in London

Spending in the UK's shops recorded its biggest one-month fall for six and s half years in September, as the death of Diana, Princess of Wales, disrupted the nation's shopping habits.

Retail sales volumes fell by a seasonally adjusted 1.9 per cent last month, according to the Office for National Statistics. This was the biggest decline since April 1991 and much bigger than City economists had expected.

Ths figures are unlikely to be of much use to the Bank of England, the UK central bank, when it contemplates whether tn raise interest rates again next month. In addition to the "Diana effect", spending patterns were distorted by unseasonably warm weather and an end to windfall payments from savings and loans institutions which have demutualised.

Individual retailers reported declines in sales of anything up to 20 per cent following the Princesa's death. Many sbops were shut on the Saturday of her funeral and trade was also depressed in the week before. The statisticians said there were signs of increased spending in florists, hook shops and record shops, but not enongh to affect tbe total.

Sales volumes fell in all categories of retailing during September, with the exception of "non-store retailing snd repair", dominated by mail order.

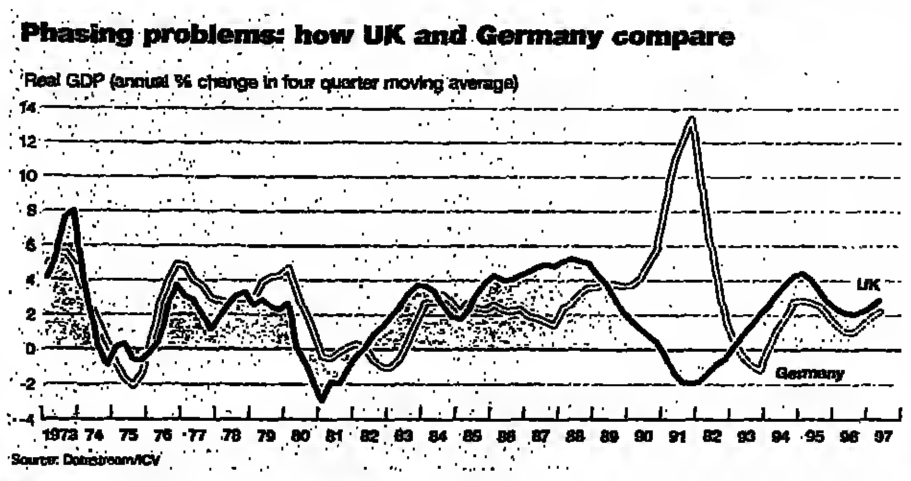
Food sales fell by 0.9 per cent in September, but from an unusually high level in the previous month. Household goods sales fsll by 5.7 per cent. but this category had been inflated over the previous three months by an estimated £400m ($648m) in spending from demutualisation windfalls.

Clothing and footwear sales also sbowed s sharp decline, with a drop of 2.7 per cent between August and September. The statisticians said sales of new winter lines got off to a slow start because of unusually warm weather.

These special factors make it impossible to extract a reliable indication of tbe underlying trend. The big fall, which will presumably be wholly or partly reversed next month, will also distort the three-month on three-month comparison which is usually used to indicate the long-term trend.

"You have got to disregard this report," said Mr Ciaran Barr, economist at Deutsche Morgan Grenfell. "It was totally distorted and so will October be aa we get a catch-up effect." But John O'Sullivan, at NatWest Markets, said it would be wrong to shrug off the entire decline as tbe result of exceptional factors. The European Commission has reported fslling consumer confidence in the UK in recent months, which would normally be associated with weaker spending in shops.

Politics and economics in Emu standoff



Politics msy preclude UK participation in European economic and monetary union before the next election, but economics may make it impossible for Britain to join later.

Gordon Brown, the UK chancellor, has set s number of conditions for entry, including a closer alignment of business cycles between the UK and the rest of the EU. However, this may be a forlorn hope: the latest economic forecasts suggest that the misalignment in the cycles, bad as it may be today, could get even worse.

The European Commission said last week that the UK will have the slowest annual growth rate of all EU countries next year – just 2.1 per cent, compared with 3.3 per cent this year. This follows a period during which the UK was one of the fastest-growing EU countries. UK growth tends to be either above or below the EU average, but rarely around the average for sustained periods.

And there is a political consideration peculiar to the UK: the popularity of variable-rate mortgages. Thus the effect of changes to short-term interest rates are quickly passed on to homeowners – and voters.

This imposes a critical constraint: the UK will not be able to join Emu if interest rates for the euro, the new single currency, are significantly out of line witb the UK. It was a similar tension that preceded the UK's ejection from the exchange rate mechanism in 1992.

Short-term interest rates in the core Emu group are now at 3.3 per cent, compared with 7 per cent in the UK. If the UK were to join the first wave, rates would have to fall sharply, which could create problems such as a threat to UK competitiveness and rising inflation.

Eddie George, governor of the Bank of England, bas pointed out the risks of forcing diverse economies together: "The one-size-fits-all interest rate could result in economic weakness and unemployment in some areas if the European Central Bank pursued a firm monetary policy."

> Britain's economy is likely to be out of step with its EU partners for the foreseeable future

Come 2002, business cycles are still likely to be out of step, except that the relative positions could be reversed. At present, the economies of the continental EU countries are at the beginning of a strong upswing, as shown by the European Commission's forecast of annual growth.

In the UK, by contrast, economic growth is forecast to fall. The National Institute of Social and Economic Researcb, an independent think-tank, says there is a 25 per cent chance of a recession next year. Other forecasters are looking towards a "soft landing". Either way, by 2002 UK economic growth and interest rates could well be lower than today. UK interest rates could also be below EU rates, whicb are expected to rise in the next few years.

If the UK were to enter in 2002, the government would risk an unpopular rise in mortgage rates, linked directly to Emu. Even if the government could overcome this political problem, going into Emu at a low point could prolong an existing downturn.

This means that the UK might have to wait for the next economic upturn – which might not come until later in the next decade. If one believes in bsrmonised economic cycles, as Mr Brown does, the best times to join would be either as part of the first wave in 1999, or well after 2002. Since the government has in effect ruled out joining in the first wave, tbe risk of s long delay cannot be discounted.

Given tbe continued uncertainty over tbe government's policy towards Emu, many UK companies have concluded that preparing for Emu is a waste of time and money. Only a few companies may say so openly, but the general level of preparedness is one of the lowest in Europe. This is unlikely to change until tbe government commits itself to a deadline.

Wolfgang Münchau

Editorial Comment, Page 15

Small firms ignoring computer 'bomb'

By Alan Cane in London

Most small and medium-sized UK companies have computer systems that are susceptible to the "millennium bomb" but few have taken steps to remedy the problem.

Unless they start work immediately on modifying their systems they could suffer serious disruption after January 1, 2000, according to a department of trade and industry study.

The DTI and computer software group Sage carried out the study for Taskforce 2000, the organisation set np to promote awareness of the problem that will arise as systems are unable to distinguish between 1900 and 2000 st the turn of the century.

Barbara Roche, minister for small companies, warned that time was running out.

"There is still a considerable amount to be done and they must not leave it any longer," she said.

The government hss recently allocated £1m ($1.6m) to Action 2000, an organisation created to help companies come to terms with the issue.

Althougb 97 per cent of the companies canvassed claimed to understand the business implications of the bomb, about 15 per cent have done nothing to modify their software and 45 per cent have not even examined their systems to check for year 2000 compliance.

Almost three-quarters of the companies said their customers were not insisting on year 2000 compliance, while just over half were not insisting their own suppliers proved their compliance.

The bomb is the consequence of software programming which denotes s year with two digits rather than four – "97" rether than "1997", for example. The technique means computers cannot distinguish between centuries, witb unpredictable results. Mr Graham Wylie, managing director of Sage in the UK, said the issue had been portrayed as a problem for big corporations with large mainframe computers running elderly software.

"With more than 90 per cent of UK businesses falling into the small and medium-sized bracket, it is clear that someone needs to lead the way on the year 2000 issue for tbese companies," said Mr Wylie.

MPs set to probe claims of investment poaching

By Alan Pike in London

Claims that UK regions are poaching inward investment activities from each other are set to be investigated by a House of Commons committee.

The probe is likely to bring into the open growing indications of friction between Scotiand, Wales and the Englisb regions.

A proposal to investigate the issue will be put to trade and industry committee members when they meet on Wednesday to determine tbeir programme of work for the coming parliamentary session.

Altbongh tbe final decision will be for the full committee, tbe inward investment probe has the support of senior members and is likely to go ahead.

The committee's inquiry is likely to be confined to a single meeting next month. As well as taking evidence from economic development and inward investment organisations, a minister would probably be asked to give evidence.

Margaret Beckett, chief trade and industry minister, has heen asked by Tony Blair, the prime minister, to resolve the issue. Discussions between Englisb, Scottish and Welsb industry ministers are currently seeking a basis for a "concordat" to avoid pnblic money being spent on wasteful inter-regional competition and ensure that financial assistance in all parts of the country remains within common guidelines.

The subject is, however, provoking considerable sensitivity.

Brian Wilson, the Scottish Industry minister, stressed last week tbat Locate in Scotland, the inward investment organisation, would "retain its powers and continne its excellent work". He said it operated under a set of rules agreed by all UK industry departments, and "any updating of these procedures will only be in Scotland's interests".

The timing of tbe committee's investigation could prove particularly sensitive. A public airing of the issues next month would coincide with the publication of the government's policy paper on the English regions. That will set ont the proposals for establishing nine regional development sgencies from April 1999.

ft is expected that the Englisb RDAs will give the more formally organised Scottisb and Welsh inward investment operations a mnch tougher run for their money.

UK NEWS DIGEST

Image 'impedes design exports'

Outdated images of the UK may be an obstacle to the export ambitions of British designers, according to two surveys published today to mark the launch of Design in Business Week. One shows that UK designers rate their work more highly than their customers in other countries do. The other suggests they have failed to convey the improvements in the quality of British design to customers mesmerised by the country's traditional image.

"Tartan, tweeds and whisky are not always the best background for promoting leading-edge product design," said David Rivett, cbairman of the Design Business Association.

Ths two surveys were commissioned by the Design Council, ths government-backed body which promotes design in British life. The first survey, carried out by IDEO Europe, s design consultancy, shows that international managers with responsibility for purchasing design ranked the UK sixth out of nine countries. It fell behind Italy, Germany, the US, Japan and France.

The second survey, by the Design in Business Association, shows Britisb companies are facing difficulties in exporting design services sucb as corporate identity and branding. *John Willman*

■ CONSERVATIVE PARTY

Local government revival urged

The opposition Conservatives yesterday pledged to become "the party of local government", setting themselves the target of a two-fold increase in local autbority representation in the next five years. The move represents a significant break with tbe past. During its 18 years in office, which ended in May, the party put empbasis on redncing the power of local government. Archie Norman, party vice-chairman, said at the end of the party's two-day strategy meeting in the south coast town of Eastbourne: "We are on the verge of a sea-change in Tory thinking towards local government."

Local elections will be contested in all Englisb metropolitan districts in May 1998, witb nationwide local ballots due a year later. "We have set ourselves ambitious local election targets," said a party official. "The upcoming contest is the first crucial staging post on our road to recovery." *Liam Halligan*

■ TEXTILES

Jobs to go at Pringle factories

Pringle, one of Scotland's best known knitwear producers, is to make nearly 300 people redundant because of reduced orders as a result of the strong pound. The company, the flagship brand of Dawson international, the Scottisb textile group, said the strength of sterling was having a serious effect on orders in Germany, east Asia and Japan. Exports account for 60 per cent of total sales. Most of Pringle's employees are at Hawick on the border with England and at Berwick-upon-Tweed in north-east England. *James Buxton*

■ VIDEO GAMES

Nintendo slashes price by $81

Nintendo has stepped up the pressure in this year's battle for the Christmas video games market by slashing the retail price of its Nintendo 64 games system by £50 ($81) to £99.99. The price cut, which takes effect tomorrow, comes a fortnight after news that the rival Sony PlayStation will bold its price at £129.99 this Christmas, but will be sold with a free joystick and memory card worth about £34. This level of price promotion has become a critical weapon in the fierce competition between Japan's video games groups. *Alice Rawsthorn*

■ CARE OF ELDERLY

Authority abandons costs battle

The north-west England local suthority of Sefton yesterday abandoned its legal fight over elderly care costs as Frank Dobson, the chief health minister, said thst more than £40m ($64m) of the extra £239m being provided for the state health service in England this year will be diverted to social services departments. A scathing report from a pnblic spending watchdog has called for more co-operation to relieve the need for acute hospital admissions and to rehabilitate patients at home after hospital treatment. Mr Dobson has written to the heads of all hospital authorities and social services departments outlining bow the extra funds should be spent. *Simon Buckby*

Four Strasbourg MEPs suspended as prime minister Blair is jeered on visit to London futures exchange

Government hit by further problems on Europe

By John Kampfner in London

Government difficulties over Europe intensified yesterday when four Labour members of the European parliament were suspended and Tony Blair, the prime minister, was booed on a visit to the London International Financial Futures Exchange.

Mr Blair's visit to the City was marred by heckling from traders following the fall in stocks on Monday, caused by confusion over policy towards European monetary union.

A Liffe official described the boos as "ironic". He said traders were joking and that Mr Blair, who was accompanied by three Commonwealth heads of government, had received a "very warm reception".

The prime minister's office dismissed a Reuters report on the event as "unbalanced" and said the reception was "overwhelmingly warm". Observers on the floor said the booing and cries of "sell" appeared to be light hearted.

Gordon Brown, the chancellor of the exchequer, has said he will make a statement to the House of Commons, after it returns next week, setting out the government's position in an attempt to allay concern in the City and elsewhere.

The four leftwing MEPs were suspended for refusing to toe the party line in a move that could lead to confrontation with the European parliament.

José Maria Gil-Robles, the parliament's president, agreed to ask its rules committee to investigate whether the move violated the privileges of MEPs. Procedures stipulate that MEPs "shall not be bound by any instructions and shall not receive a binding mandate".

The rebels were given until mid-afternoon yesterday to accept an ultimatum preventing them from criticising government policy, notably the decision to hold the UK's next European elections under proportional representation.

Leftwingers predict that Mr Blair will use the new system to weed out recalcitrant MEPs who have defied the official line. The leadership has long wanted to bring MEPs under the same tight control now imposed on UK Labour MPs.

The four – Ken Coates, Hugh Kerr, Alex Falconer and Michael Hindley – were told they were no longer welcome at meetings of the 62-strong Labour group in the European parliament, the largest of any country. Wayne David, the leader of the Labour group who carried out the suspensions, said: "This is not something that we like doing but we think it very important that Labour MEPs, like everyone else in the Labour party, accepts collective decisions and procedures." Labour'e latest code of conduct prevents members from public discussion of "any aspect of the party selection procedures" which are a matter for internal discussion".

Government to push for wave and wind power

By Leyla Boulton in London

The government is to reject pleas from the solar power industry for millions of pounds in subsidies and push instead for an increase in wave and offshore wind power, Michael Meacher, the environment minister, said yesterday.

Mr Meacher said that public spending constraints in the near future ruled out a big increase in subsidies for solar energy. Manufacturers of solar equipment have sought £18m ($29m) annual support in return for which they have pledged to invest £100m in manufacturing capacity.

Mr Meacher said that solar power was still "too expensive" in relation to wind power and would come into its own only in five or 10 years' time. His comments directly contradict a call he made before the general election in May for early support for solar power. They appear to foreshadow the result of a government review of renewable energy policy to be published early next year.

Mr Meacher's comments, which dismayed Greenpeace and other solar industry lobbyists, coincided with a big push yesterday by the government to encourage more companies to embrace combined heat and power.

This is an extremely efficient method of electricity generation that produces heat and enables companies which instal it to sell surplus electricity.

Along with support for renewables and changes in transport policy, CHP is one of three pillars of the government's emerging strategy for achieving a 20 per cent cut in emissions of carbon dioxide, associated with climate change.

Richard Morse, head of electricity at Dresdner Kleinwort Benson, the investment bank, told a seminar of industrialists organised by the government that CHP made financial sense for many companies.

Mr Morse said that every 1000MW of CHP plant installed could reduce carbon emissions by 1m tonnes and cut energy costs by more than £100m per year.

PA

Alan Sugar (left), founder of the Amstrad computer group, returned to his school yesterday to talk to students. He was accompanied by Gordon Brown, chancellor of the exchequer, as part of a government-backed tour promoting enterprise

Unit trust industry queries regulator's competence

By Jonathan Guthrie in London

The Association of Unit Trusts and Investment Funds, which represents the £140bn unit trust industry, has raised "considerable concerns" about the competence of some staff expected to oversee the sale of financial products to the public within the planned super regulator, Newro.

The comments, made by Autif director-general Philip Warland in an interview with the FT, come at an embarrassing time for the main City regulator, the Securities and Investments Board. Next Tuesday it will formally launch Newro, which is set to replace both itself and eight other regulatory bodies.

The bulk of sales of financial products to the British public is monitored by some 126 staff employed by the Personal Investment Authority, the retail regulator. Most are expected to continue in the same role as employees of Newro when it begins its operations in the spring.

But according to Mr Warland, most of them joined the PIA from life insurers, which meant they understood insurance policies but were not, in his opinion, as well qualified to deal with some other types of investments.

This was inadequate, he said, because non-insurance investment products, like unit trusts, make up half the sales of many intermediaries regulated by the PIA.

In contrast, he added, the staff of two other regulators – the Investment Management Regulatory Organisation and the Securities and Futures Authority – "understand investment and have a better idea that the business is not wholly transaction driven."

Imro and SFA employees monitor a much smaller proportion of retail sales than the PIA and are, thus, likely to be thinly represented within the proposed supervisory division of Newro.

Richard Cockcroft, head of market practice and training and competence at the PIA said: "Our staff participate in wide-ranging, continuous training and many of them are highly qualified...I suspect these criticisms are based on just a few unsatisfactory experiences."

But according to Paul Kafka, a spokesman for Fidelity Investments, one of the UK's biggest retail fund managers, Mr Warland "is definitely articulating the view of the unit trust industry." Mr Kafka said that PIA monitoring staff "need to be managed carefully within Newro."

Bridget Cleverly, marketing director of Schroders, the UK's biggest unit trust company, said some PIA staff had in the past lacked "a technical grasp of investment products." She suggested special training but went on to add: "I do not agree with blanket criticism of these officials."

Ministers draw back on cuts to Oxbridge

By Simon Targett and John Kampfner in London

The government is drawing back from plans to abolish the special financial privileges of Oxford and Cambridge universities after a rearguard action by academic officials.

Ministers last month suggested they wanted to scrap £35m ($57m) extra funding which pays for the universities' elite college and one-to-one tutorial systems. This gives each Oxbridge student £2,000 more than students at other UK universities.

Higher education faces a £3bn funding shortfall by 2000-2001, and the government is reviewing ways to re-direct funds to the most cash-starved institutions.

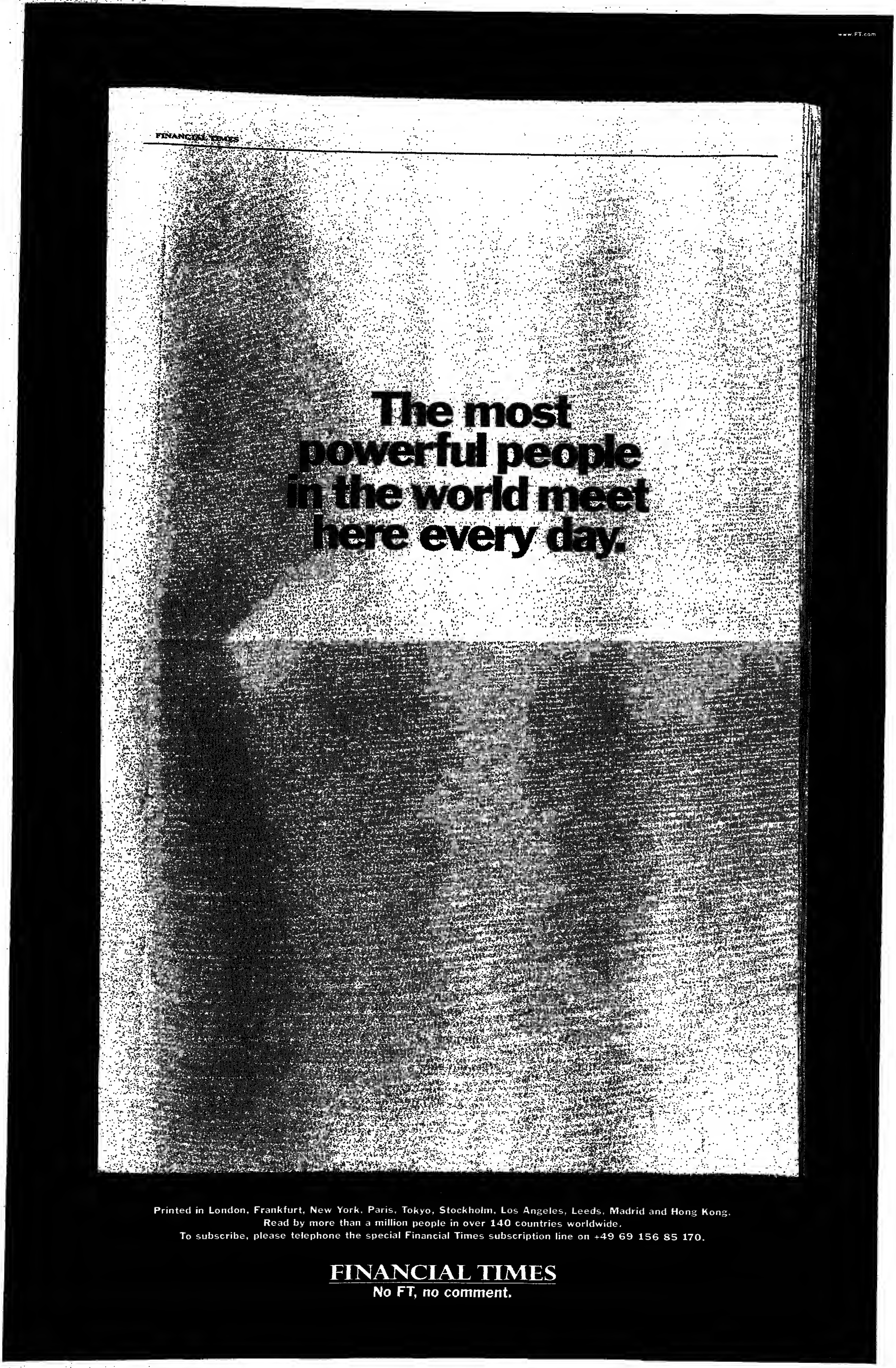
A senior government official said: "The universities have said some positive things on access in recent days which is just the sort of thing which ministers have been looking for for some time."

Cambridge University this week unveiled plans to increase the proportion of state school pupils from 52 per cent to 68 per cent, and reduce the proportion of fee-paying independent school pupils to 32 per cent.

The Financial Times reported in September that the government wanted to phase out the funding. A minister said at the time that "with the entire sector facing a squeeze, it's becoming increasingly difficult to defend a system which gives extra money to the rich".

But the colleges have been engaged in intense lobbying, and a senior government official said ministers "are listening to what the colleges are saying".

Heads of Oxbridge colleges have warned ministers that a funding cut would force them to become "smaller, private institutions". Some threatened to close graduate programmes, undermining their international reputations.


www.FT.com
FINANCIAL TIMES
The most powerful people in the world meet here every day.
Printed in London, Frankfurt, New York, Paris, Tokyo, Stockholm, Los Angeles, Leeds, Madrid and Hong Kong.
Read by more than a million people in over 140 countries worldwide.
To subscribe, please telephone the special Financial Times subscription line on +49 69 156 85 170.
FINANCIAL TIMES
No FT, no comment.

TECHNOLOGY

A new music CD format supplies textual information, writes **George Cole**

Listen with your eyes

Music CDs that you can read as well as listen to will be in the shops from next year. CD Text is a new format that adds text information to a cooventional audio CD. The system is no relation to the various recordable compact discs becoming available.

CD Text is an extension to the existing audio CD format, developed by Philips and Sony in the 1980s. It will allow a new generation of CD players to display text, which could include the track title, album title and artist's name.

The idea of adding extra information to music CDs is not new:

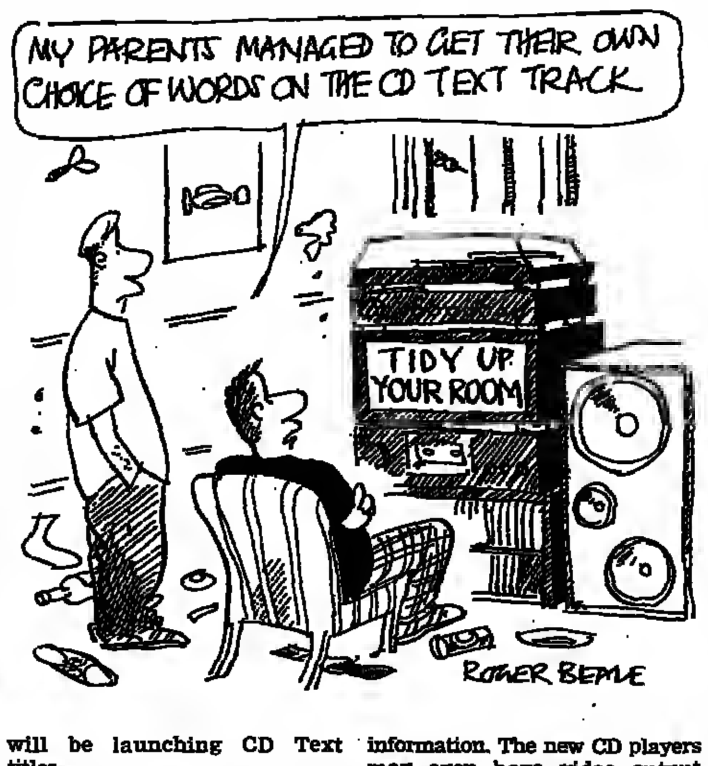
The new format is fully compatible with the 500m audio CD players worldwide

writteo into the original CD specification is a system known as CD Plus Graphics (CD+G), which puts teletext-type graphics and text on a television screen. But CD+G failed to take off, except in Japan, where it is used for karaoke, as it involves singing along to the backing track of a song while reading the lyrics off a television screen.

But CD Text is different, says Mike Masdroyiannis, Philips audio products strategy manager: "It costs little to add text to a CD, about $10,000 (£6,200) in production costs. What's more, the discs can be produced on existing CD lines, and it costs the CD manufacturer only about $1,500 to add a CD Text encoder to his existing equipment."

The text data is stored on an area of the disc that holds extra information known as sub-code data. On today's music CDs, very little sub-code data is used – it is devoted mainly to showing time and track information.

CD Text is fully compatible with the 500m audio CD players worldwide, which will ignore the text and play the music as normal. In spring 1998, a number of manufacturers will be launching a new generation of CD Text-compatible players, including Sony, Philips, Denon, Aiwa and Kenwood.



The new players will have built-in text decoders and LCD screens that are larger than those found on today's CD players. PolyGram and Sony Music will be launching CD Text titles.

Some CD Text players will have simple eight-character displays, with a scrolling facility, while others will have multiple-line displays for showing more information. The new CD players may even have video output sockets, allowing the text information to be displayed on a television screen or computer monitor.

Tha CD Text format offers optional features, including the ability to display scrolling lyrics and a system for highlighting part of a track – known as highlight scan. Many CD players already offer a scanning facility, which allows the user to hear the first 10 or 20 seconds of a track, before the player moves on the next track to repeat the process.

However, highlight scan makes it possible for a CD producer to electronically mark any portion of the song for playback, such as the chorus.

Supporters of CD Text say the feature will be especially useful for owners of multi-disc CD players, some which can store more than 100 discs. The text information will make it easier to find a specific track or disc. Record stores could also use CD Text to tell customers the artist name and the track title being played in the shop. CD Text data can also be broadcast by radio and received by car radio tuners with a text facility.

Mr Masdroyiannis admits that the introduction of CD Text has been driven by the hardware companies: "The compact disc market is a mature one, and this is just one way of making it even more attractive to consumers," he says.

The Force is with us

William Macdonald on water with a catalytic effect

The dictionary definition of water is a liquid without colour, taste or odour. If you thought there was not much else you could do with it other than drink it, wash with it or sail on it you would be wrong.

A US company is using a form of water to enhance car engine performance, and to cut the cost of production of ethylene, one of the basic building block chemicals. It is also being used as a laundry additive and there could be medical and biological applications.

It was a researcher working for American Technologies Group (ATG) in Monrovia, California, who discovered an anomalous form of ice which is stable at room temperature. Shui-Yin Lo used solutions of ions to produce an electrically charged form of water, dubbed IE Crystal, which formed globules of water invisible to the naked eye.

Water is a polar molecule; that is, one end of the molecule has a slight positive charge while the other has a slight negative charge. The formation of the IE Crystal exploits this effect. The water molecules form alternating negative and positive layers around a positively charged ioo – an effect which has been termed "nanotricity". This gives the water a pseudo-crystalline or solid structure, even at room temperature.

The result is a unique substance which, once formed, is surprisingly stable and can even be filtered, packaged and sold. It is being marketed as The Force in the US, where it is used to boost car engine performance by decoking the engine. The IE Crystal has a catalytic effect which encourages a "more complete burn" of tha fuel.

The same principle applies to its use in the furnaces of steam crackers, which are used to produce olefins such as ethylene and propylene. "It looks pretty much like regular water," says Grant Shields, vice-president of technology of KTI, a subsidiary of Mannesmann in Germany.

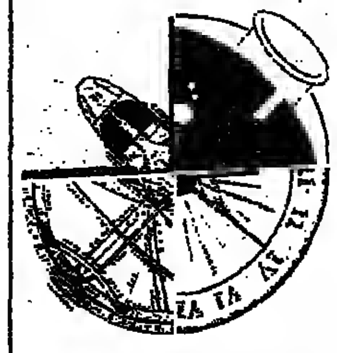
KTI's core business is the design and construction of process plants and hydrocarbon steam cracking facilities. It recently signed a joint research and development agreement with ATG over the IE Crystal technology. "The decoking of cracker furnaces is a pretty active area of research, with people looking at techniques such as the injection of chemicals to inhibit coking," he says.

An ethylene cracker can be run for one to two months before it must be taken down, and two to three days spent decoking the furnaces. A study, carried out by Selim Senkan, a professor of chemical engineering at the University of California in Los Angeles, has found that the IE Crystal can reduce the build-up of coke by a factor of four.

"Once we get the data and have had a chance to look at it we will then start looking at the economics of the technology and start talking to operators," says Mr Shields. KTI could offering the process commercially within six to 12 mooths.

Transmission electron microscope photographs of IE crystals

Worth Watching · Andrew Baxter



Ozone loss feeds back into weather

Every spring in the Antarctic, a man-made "ozone hole" opens in the stratosphere (upper atmosphere), reducing protection against the sun's ultraviolet rays and increasing the risk of skin cancer.

The Arctic suffers too from depletion of stratospheric ozone, which is caused by pollutants such as CFCs. But the effect has been less severe, partly because the period of ozone loss has tended not to persist into the spring.

This may be changing with the weather, according to research by Markus Rex of the Alfred Wegener Institute of Polar and Marine Research in Potsdam, Germany, and colleagues.

In an article in today's Nature, they say the unusually cold Arctic winter of 1995-96 saw the highest chemical ozone loss observed over the region, partly because the losses extended into spring.

They say the balance between two counteracting mechanisms operating at different altitudes – one reducing ozone loss and the other increasing it – may be determined by small differences in winter stratospheric temperatures.

The study comes a few weeks after an international research group warned of a possible feedback effect in northern Europe, with the ozone hole causing colder weather, which in turn helps to destroy ozone even faster.

Alfred Wegener Institute, Germany (Markus Rex): e-mail mrex@awi-potsdam.de

Satellite tracking device

A miniature, satellite-based wireless location device is due to be launched in the second half of next year which is claimed to be cheaper, simpler to install and more reliable than existing tracking systems.

Conventional GPS location devices need at least three satellites to be visible to obtain a usable "fix" on their position. In contrast the device from Spacetrac, which is exploiting technology developed by Eagle Eye Technologies of the US, needs only one satellite in most circumstances.

The mobile unit returns a signal to the satellite from which the base station can measure the satellite's relative distance and speed, and compute the mobile unit's position.

The tracking device, which is about the size of a cigarette packet, is aimed mainly at the vehicle security systems market.

Toad, the UK company which has European rights to distribute the Spacetrac product for vehicle use, expects it to cost less than £150 for the user.

Toad, UK: tel (0)1223 214555, fax (0)1223 214844; web www.eagle-eye-tech.com

Adhesion process protects metal

A technique for preparing and protecting metal surfaces, claimed to provide significant environmental and energy saving benefits, has been announced by Brent International, the UK speciality chemicals company.

Unlike some conventional anti-corrosion and preparation methods used in automotive and other industries, the new pre-treatment technique does not use chromates, other heavy metals or phosphates.

It involves applying a well-known chemistry for promoting adhesion.

The product attaches itself to metal and coating molecules, almost like a chain with a hook on each end.

Full industrial trials are beginning, and follow three years of research by the UK chemicals company and the University of Cincinnati, where the inventor, Dr Wim van Ooij, is based.

Brent has an exclusive worldwide licence to exploit the technique.

Brent International, UK: tel (0)1753 651812, fax (0)1753 630512

European Union research and technology grants

Programme	Date/OJ Reference	Due date	Value Ecu m	DG	Contact fax/Email
Information Technology (ESPRIT)	15.4.97/C117 (with Brite-EuRam) 16.9.97/C280 17.3.98	31.3.98 16.10.97, 16.12.97, 6.2.98	2,035	III	Mrs Gerda Colling +32-2-296.83.88 esprit@dg3.cec.be
Software; components & sub-systems; multimedia; Long-term Research; Open Microprocessor System Initiative; high-performance computing; business process technologies; manufacturing integration					
Industrial & Materials Technologies (BRITE-EURAM)	15.12.95/C337 17.12.96/C381 networks,CRAFT etc 15.4.97/C117 (with Esprit)	20.5.98 17.12.97, 8.4.98, 20.5.98 31.3.98	1,722	XII	Help Line +32-2-295.80.46 imt.helpdesk@dg12.cec.be
Production technologies; materials & technologies for product innovation; technologies for transport					
Standards Measurements and Testing (SMT)	15.12.94/C357 15.6.95/C148 17.6.97/C183	15.3.95-17.12.97 30.7.98 27.11.97	184	XII	Mr Pierre Mériguet +32-2-295.80.72 smt-helpdesk@dg12.cec.be
Measurements for Quality European Products; standards and technical support to trade; measurements related to the needs of society					
Environment and Climate	15.12.95/C337 16.9.97/C280	20.3.97-20.3.98 16.12.97 (Enrich)	566.5	XII	Space technology: +32-2-296.05.88 Other areas: +32-2-296.30.24 environ-infodesk@dg12.cec.be
Environmental quality & global change; environmental technology; space techniques for environmental monitoring & research; sustainable development					
Marine Science and Technology (MAST III)	15.12.94/C357 15.3.96/C75 17.6.97/C183	17.12.97(SMEs) 12.6.98 12.6.98	243	XII	Mr Jean Boissonnas +32-2-296.30.24 mast-info@dg12.cec.be
Marine science; strategic marine research technology					
Biotechnology	15.12.95/C337 15.6.96/C171 17.12.96/C381 17.6.97/C183	11.97, 3.98 & 7.98 (training) 3.98 & 9.98 (workshops) 15.10.97 (RTD projects)	588	XII	Mr Stéphane Hogan +32-2-296.29.65 life-biotech@dg12.cec.be
Cell factories; genome analysis; cell communications in neurosciences; immunology and vaccines; structural biology; biodiversity; social acceptance					
Biomedicine and Health	17.1.95/C12	31.3.96-31.12.97 (fellowships)	358	XII	Mr Alain Vanvossel +32-2-295.53.65 alain.van-vossel@dg12.cec.be
Pharmaceuticals; biomedical technology & engineering; brain research; human genome research; public health; biomedical ethics					
Agriculture and Fisheries (FAIR)	17.12.96/C381 • SME/Craft • fellowships 15.10.97	8.4.98 CONTINUOUS 16.1.98	646.5	XII	Mr Xabier Goenaga +32-2-296.43.22
Integrated production & processing chains; nutritious foods; agriculture, forestry & rural development; fisheries & aquaculture					
Non-nuclear Energy (JOULE-THERMIE)	15.12.94/C357 15.6.96/C171 15.9.97/C280	17.12.97 (Demo) 9.96-7.98 (training) 30.01.98 (Demo)	1,030	XII (R&D) XVII	Mr Michel Poireau (R&D); +32-2-295.06.56 Mr Wiepke Folkertsma (Demonstration); +32-2-295.05.77; info@dg17.cec.be
Strategy; rational energy use; renewable sources; fossils fuels; energy technology dissemination					
Nuclear fission safety	17.1.95/C12	1.11.97	170.5	XII	Radiation protection: +32-2-296.62.56 All other areas: +32-2-295.49.91
Innovative approaches; reactor safety & severe accidents; radioactive waste management disposal & decommissioning; impact on man & environment					
Targeted Socio-Economic Research (TSER)	16.9.97/C280	15.1.98	112	XII	Mr Peter Fisch +32-2-296.21.37 tser-secr@dg12.cec.be
Evaluation of science & technology policy options; education & training; social integration & exclusion					
International Cooperation	15.2.95/C38	grants: 3.95 - 3.98	575	XII	Cen/East. Europe Mr R Meijer +32-2-296.33.08 Non-Europe,Indust. Mr L Bellemin +32-2-296.[illegible] EEA, EUREKA Mr N Newman +32-2-296.[illegible] COST Mr Pierre Venat +32-2-296.42.[illegible] Developing countries +32-2-296.62.52 inco-desk@dg12.cec.be
Central & Eastern Europe; other industrialised countries; developing countries					
Dissemination and application of research findings (INNOVATION)	16.9.97/C280	15.12.97	312	XIII	Innovation: Mr Robin Miège +352-4301-34544 Relay Centres: Mr J Hernandez-Ros +352-4301-34129 Training/Dissem: Mr M Bellardinelli +352-4301-34[illegible] Technology Transfer: Mr J-N Durvy +352-4301-34128
Technology validation; Technology transfer					
Training & Mobility of researchers (TMR)	16.9.97/C280 15.12.97	15.12.97 31.3.98	792	XII	Mr Jürgen Rosenbaum +32-2-296.90.28 tmr-info@dg12.cec.be
Research networks access to large-scale facilities; training through research; conference & summer schools					

ACTS, TRANSPORT and TELEMATICS APPLICATIONS have no open calls

The table above shows the status of the main programmes that distribute R&D grants within the EU Fourth Framework Programme. The name of each programme (and acronym, if any) is on the left in bold type, with a brief list of its main research areas beneath.

The next column gives the date(s) on which the EU Official Journal has published a "call for proposals" for the programme, with the reference number of the journal. Dates without a reference number show when the future calls are scheduled.

The "due date" column gives the main deadline for submitting project proposals. Some Calls have different due dates for different activities. The total budget of the programme over five years is given in millions of Ecu, followed by the number of the directorate-general responsible for it.

Finally there is a contact name (where available) and fax number in Brussels or Luxembourg. For further information look for DG XII's pages on the EU's Europa web site: http://europa.eu.int/en/comm/dg12/[illegible]

A pleasing inversion of gender-role stereotype: George Clooney and Nicole Kidman in 'The Peacemaker'

Cinema/Peter Aspden

Morsel of moral complexity

Wa have been living for long enough in the post-cold war world to bave developed an entirely new set of cinematic clichés: in place of totalltarian monsters who want to rule the world, there are dsmsnted free marketeers who want to sell it; the soft Byzantine drones of broken eastern Europe have displaced fhe triumpbalist scores of Soviet supremacy. Most importantly, the bad guys want much the same as ths defenders of the free world: the biggest Mercedes and slickest laptop in town.

The baddest guy in Mimi Leder's *The Peacemaker*, bowever, has the most primitive of motivations: revenge. Hs is a victim of the war in Bosnia and devises a fiendish plan to make the American people – or at least a couple of blocks in New York – pay. He hroods at home playing Chopin, ataring moodily at the scarred landscape all around, but his resolve declines to falter. An artistic sensibility only takes you so far.

Half a world away, intelligence officer Thomas Devoe (George Clooney), and nuclear scientist Julia Kelly (Nicole Kidman) jostle with gusto as thsy try to explain a mysterious nuclear explosion in a remote section of Russia. She is tall, dark, handsome, rational, anthoritative. He is over-emotional, sentimental, "a talented soldier with sloppy impulse control", in Kelly's scathing summation. This is a pleasing inversion of stereotype, and there are some waspish exchanges as Leder, a veteran director of television's *ER*, estabIisbes an impressively fluent pace early on.

But this is an action picture: and soon Michael Schiffer's subtle(isb) screenplay has to make way for crashing limos in Vienna, bellish belicopter rides, and a credibility-stretching chase through New York. The too-cool Kelly ("Do not proceed witbout authorisation!") learns about the serious business of death; jumpy Devoe ("Let's rock and roll!") begins to appreciate the need for discipline. Why does this have the feel of an internal American foreign policy debate?

Absurdly, our heroes first mastermind, then execute the saving of the world. But it is churlish to complain. This is a superior action movie, featuring real emotional responses and at least a morsel of moral complexity which is rare in the genre. Much credit to Clooney, who has perfected his head-down, eyes-up look of longing to a lucrative art; and to Kidman, who has tough-hut-tender to a tee. Most of all to Leder, who keeps her protagonists' hands off eacb other until they fall into a climactic post-ballistic embrace of some understandable intensity.

★

If the theme of gender-role inversion provides a hefty sub-text to *The Peacemaker*, it springs triumphantly to centre-stage in the week's best film, Alain Berliner's *Ma Vie En Rose*. Ludovic (Georges Du Fresne, quite wonderful) is a seven-year-old boy who dreams of being a girl. All seems innocuous enough at first: be waddles amusingly in front of the new neighbours in his motber's red high heels; be pouts and dances in front of the mirror; he dreams innocently, but obsessively, of his doll-cum-televlsion star heroine, "Pam".

But when he begins to make eyes at his father's boss's son, promising to marry him "when he becomes a girl", tensions rise. The fragile barmony of this prosperous corner of wbolesome suburbia is gradually threatened, as friends and neighbours are forced to consider their own reactions to Ludovic's increasingly unsettling japes.

His father briskly marches him off to play football, with predictably painful results; his mother, more understanding, agrees to take him to a child psychologist, whose bland questioning makes scant impact on Ludovic's sumptuous dream world. His family, supportive at first, slowly begins to doubt him, and finally virtually disowns him.

It is bard to believe that this is director Berliner's screen dehut, such is the assurance with which he (literally) darkens the tone of his touching tale. He is helped by superb performances by Michèle Laroque and Jean-Philippe Ecoffey as Ludovic's embattled parents, frustrated and lost in a world in which innocent reverie is the harbinger of disaster.

THE PEACEMAKER
Mimi Leder

MA VIE EN ROSE
Alain Berliner

A LIFE LESS ORDINARY
Danny Boyle

DARKLANDS
Julian Richards

Berliner's lightness of touch ensures that he never overplays his theme: the neighbours who finally drive away Ludovic's family are not portrayed as unfeeling monsters, but as families dealing with their own problems: a dead child, an insecure marriage. It is this emotional brittleness which forms the core of the film. The occasional fantastical incursions into Ludovic's dream world act as a reminder that we are dealing with the gentlest of unorthodoxies: but the power of this intelligent, bumane film lies in its careful scrutiny of the devastating consequences.

★

It is a cinematic truism that everyone thinks they can do romantic comedy: actors who need to boost their charm rating with the public; writers who get the chance to do sex *and* jokes; directors who think they can get away with an infinite amount of whimsy, and maybe discover a new Audrey Hepburn in the process.

So no surprise to see the genre attract the *Trainspotting* team – director Danny Boyle, writer John Hodge, producer Andrew Macdonald – who must bave thought they could revitalise the formula with their idiosyncratic blend of hip humour and striking visuals with *A Life Less Ordinary*. Add the winning combination of Ewan McGregor and Cameron Diaz, both in good form, and wbat could go wrong?

Plenty. For the golden rule of romantic comedy is immntable: first the romance, then the comedy. If the central relationship is not conveyed with scrupulous attention to detail, then we do not care; and if we do not care, the jokes aren't funny.

McGregor is the inept loser who kidnaps spoilt rich girl Diaz and sets off on the road, Holly Hunter and Delroy Lindo are the "angelic operatives" dispatched from heaven to make them fall in love. But the logic of the celestial intervention is half-heartedly developed, the relationship between McGregor and Diaz insufficiently combustible. Worst of all, the film sags hadly in the middle as Boyle resorts to slapstick, as if realising his principals are not cutting it. And *nothing* is as embarrassing as a cute ending to a romantic comedy gone wrong . . .

★

Darklands is s daft story of post-industrial paganism and Welsh nationalism and – this could have been good – the links between the two. The soundtrack is intriguing, but the script miserable and the direction heavy-handed. Possibly worth catching for former Welsh international rugby player Ray Gravell's cameo as a frightening gypsey (sic) welder, which is not half as frightening as his tackling used to be.

Theatre/David Murray

An overdone delicacy

At the Theatre Royal, Haymarket six excellent actors find themselves in a pickle. The pickle is Edward Albee's 31-year-old play, *A Delicate Balance*.

Or no, no! – rather, one might call it a cut-glass salad bowl, with soggy leaves at many levels, not perhaps by intention, quite possibly not even probably, but certainly constituting, if one may so speak (leaving everybody and indeed anybody else to attacb their own quaint, and no doubt whimsical meanings to the action), grisly challenges to the actors. Which reminds me, by some circuitous route, of something else rather illuminating; bnt I sball cboose, quaintly and even whimsically, not to confess anything about that.

A little of that style goes a long way. *A Delicate Balance* has a lot of it, and it goes bardly any way at all. Tbe generating idea for the play, which won a Pulitzer prize, is wbat we see, and as an idea it was seriously promising. The life-style of an almost-elderly, well-to-do couple, semi-retired to Connecticut, is fractured wben Edna and Harry, tbeir "best friends" of 40 years' standing, descend upon them.

Not, as it turns out, just for a visit, but to *move in*; because they have been overwhelmed by "the terror", and desperately need support – children gone, occupation done, meaninglessness. Where else to turn, if not to their best friends?

Albee might have devised a dramatic action to develop that vision, testing the bounds of friendship, loyalty, communality among a certain class of a certain age.

Instead be was content to lay down the bare structure, and titivate it witb elaborate monologues in (one guesses) his own donnisb voice – ultra-grammatical sub-clauses, wry qualifications, nagging repetitions. The situation *does* make itself felt, but oh! through what borrendous verbal thickets!

Eileen Atkins and John Standing are the beleaguered hosts, Agnes and Tobias. She gets the most tortuous monologues, and delivers them with dogged smoothness, too unhesitatingly for any second thought – there are a lot of those – to sound anything but pre-programmed. He is good at looking innocently pole-axed, and is occasionally rather moving.

Edna and Harry are Annette Crosbie, bright-eyed and tidy, and James Laurenson, whose first stammering admission of why they have come is a rare moment of buman revelation. There are also two semi-detached cbaracters, Tobias's dipsomaniac sister Claire (Maggie Smith), a permanent guest, and his and Agnes's daughter Julia (Sian Thomas), returning wounded from her fourth marriage to find Harry and Edna occupying her room.

Thomas adds a welcome note of frank outrage and distress to the proceedings. Dame Maggie is as always delightful to watch and hear (though ber American acceot hails from some hitherto undiscovered state): not the cheerful boozer that Elizabeth Spriggs gave us in the first London production 30 years ago, but something fey and lizard-like, subtly disruptive.

Director Anthony Page has marshalled this logorrboeac piece as expertly as one could fairly expect. It remains a mystery why a house tbat boasts sucb a sumptuous drawing-room (designed hy Carl Toms), Corinthian pillars and all, should have only three bedrooms.

Theatre Royal, Haymarket, London SW1 (0171-930 8800).

Theatre/Sarah Hemming

Wartime crisis of confidence

For many of us, the Falklands War has dimmed into a faint memory, hut Meredith Oakes brings it bursting back to life with her mordantly funny, dark new play.

Faith is set "in a remote island farmhouse at a time of war", but given the position of the island, the nature of the war and the language of the enemy, it is pretty clear which conflict she has in mind. Oakes uses the tatty farmhouse kitchen to examine the moral – or immoral – business of war, chiefly through the figure of Sergeant Toby Spiers (Howard Ward), in whom the conflict has precipitated a crisis of faith.

For all his protestations that "the Britisb fighting man is the most highly organised of men", the sergeant's belief in his call has clearly already taken a knock when the play opens. He fusses around tbe kitchen in which be and his men have taken up residence, washing mugs and talking to himself about not wanting more killing than is "strictly necessary", to the evident disgust of his lance corporal, a vicious, furious man driven wild by his superior's equivocating stance.

Things come to a bead wben an order comes through to shoot an American mercenary who was captured fighting for the other side. Scared that this might amount to cold-blooded murder, Spiers is suddenly faced with the awful possibility that tbe noble cause for which be bas been fighting is no such thing. From then on he is in free fall.

Tbe sergeant's ruminations form the centre of the play. But while he laboriously works out that if he had no belief in those giving him orders, his mission ceases to be sanctified and becomes empty violence, Oakes sets his crisis in context by drawing a bleak, hlackly funny picture around him of the mess and absurdity of war.

She ranges preposterous details (the soldiers eat their dinner at 10 am) along side gruesome accounts of tbe fighting. The conversation of tbe sleep-starved privates (Jimmy Gallagher and Callum Dixon, both wonderfully convincing and funny) see-saws from foul-mouthed banter to the real observation, as they struggle to hold their own in a sea of madness, rendered worse hy tbeir leader's confusion.

Tbe situation is given an extra twist by the presence of Sandra, owner of the farmhouse. A bousewife uprooted from riot-torn Brixton for peace and quiet, Sandra (a delightfully bard-bitten Elizabetb Cbadwick) does not display the looked-for gratitude at being saved by a buncb of louts who tramp mud and blood around her kitcben.

Meanwbile, the cold war between Spiers and the lance corporal threatens at any moment to explode into violence. If there is a flaw, it is that the conscience-stricken sergeant takes so long to arrive at bis conclusions that we begin to sympathise with his rebellious lance corporal. But this is an impressive, hitterly funny play.

Continnes st Tbe Royal Court Theatre Upstairs, Ambassadors, London WC2 (0171-565 5000).

Dance/Clement Crisp

Wild boy blues

It would be good to report that the opening of this year's Dance Umbrella festivities was cause for rejoicing. The Umbrella shelters the good, the bad, and the soul-numbingly indifferent in modern, postmodern and even post-postmodern, dance. With Stephen Petronio's troupe (to whom fell the honour of the first performance) we find the exasperating, too.

Dance Umbrella owes everything to the artistic taste and administrative skill of Val Bourne. So Petronio's initial piece at the Queen Elizabetb Hall on Tuesday night paid nice tribnte to ber in its title, *ReBOURNE*, if not in its steps. Petronio's reputation bere, as in his native America, is as dance's Wild Boy, its *enfant terrible*. Alas, he is *enfant* no more, but much of this programme was terrible.

There were tbe usual ingredients of ear-alarming din or fearful noise: the yowling of Diamanda Galas for *Number 4* would delight an audience of tom-cats. (*Number 4* itself, in which four chaps explored the delights of synchronised catatonia, would delight an audience of undertakers.)

Some of the costuming had the air of being badly frightened by a display of négligée; the rest was merely unflattering.

Petronio's companions varied in performance-manner from convincing to improbable. The choreography went its predictable way, with bursts of energy and Sahara-stretches of dull posturing. Petronio offered a new and unenterprising solo which looked as if his imagination were stuck to the floor. In another piece, generously wired, be leaned over the stage in a slowest-motion fall. His companions, in shiny black cover-alls and gauzy hits, were Carabosse's retinue in a kinky *Sleeping Beauty*.

It was an arid, desperate show until the last piece, *Lareigne*, in which white-clad dancers (Petronio's wilis, but wilis stripped to tbeir inexpressihles, of course) were caught in fast, intriguing, ghostly encounters. Electronic clangour and a perfectly vile song by *The Stranglers* went their barbarous way, hut the movement caught the imagination, and the dance and the dancers looked alive. The eveoing was not wbolly wasted.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Driemaal Balanchine: National Ballet programms of three works – Concerto Barocco, Violin Concerto and Apollon Musagète, to music by Bach and Stravinsky; Oct 23, 24

■ BERLIN

CONCERTS
Konzerthaus Tel: 49-30-203090
Berlin Symphony Orchestra: conducted by Jerry Semkow in works by Glinka, Dvorák and Prokofiev. With violln soloist Alyssa Park; Oct 23, 24, 25

OPERA
Deutsche Oper
Tel: 49-30-34384-01
● Der Fliegende Holländer: by Wagner. Conducted by Christian Thielemann in a staging by Götz Friedrich; Oct 24, 26
● Die Zauberflöte: by Mozart. Staged by Günter Krämer, with sets and costumes by Andreas Reinhardt; Oct 25

■ BILBAO

EXHIBITION
Guggenheim Museum Bilbao
Tel: 34-4-423 2799
The Guggenheim Museums and the Art of This Century: the new museum's inaugural exhibition features more than 300 works of modem and contemporary art from ths Guggenheim's collections

■ BRUSSELS

OPERA
La Monnaie Tel: 32-2-229 1211
● La Stellidaura Vendicante: by Francesco Provenzale. New production directed by Phillippe Sireuil and conducted by Alessandro ds Marchi; Oct 23, 26
● Werther: by Massenet. Concert performance conducted by Wladimir Jurowski, with a cast including Alison Hagley and Jennifer Larmore; Oct 26

■ CHICAGO

EXHIBITIONS
Art Institute Of Chicago
Tel: 1-312-443 3600
● A Collecting Odyssey: Indian, Himalayan, and Southeast Asian Art from the James and Marilynn Alsdorf Collection. Around 200 works of art, primarily Buddhist and Hindu sculpture spanning nearly 20 centuries; to Oct 26
● Renoir's Portraits: Impressions of an Age. Around 65 paintings spanning the artist's career, of subjects including Clauda Monet and Madame Renoir. The show has been seen in Ottawa and will travel to Texas; to Jan 4

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
● Idomeneo: by Mozart. Conducted by John Nelson in e staging by John Copley; Oct 25
● Nabucco: by Verdi. New production staged by Elijah Moshinsky and conducted by Bruno Bartoletti. Cast includes Maria Guleghina and Samuel Ramey; Oct 24
● Peter Grimes: by Britten. Conducted by Mark Elder, making his Lyric Opera debut, in a staging by John Copley. Ben Heppner sings the title role; Oct 26

■ COPENHAGEN

EXHIBITIONS
Frederiksborg Castle
Tel: 45-42-260439
Four Hundred Years of Scottish Portraits: second half of an exchange organised with the Scottish National Portrait Gallery which saw an exhibition of Danish portraiture in Edinburgh during this summer'a festival. Now 100 paintings and photographs by Scottish artists including Raeburn are on show in Frederiksborg Castle, 30 kilometres from Copenhagen; to Nov 2

■ FORT WORTH

EXHIBITIONS
Kimbell Art Museum
Tel: 1-817-3328451
Impressionist and Modern Masterpieces: Ths Rudolf Staechelin Family Foundation Collection of Basel. First American showing of 26 paintings including Gauguin'a Nafea Faa Ipoipo (When Will You Marry?), and works by Cézanns, Matisse and Picasso; to Jan 11

■ LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: conducted by André Previn in a programme of works by William Walton. With violin soloist Alexander Barantschik, viola Paul Silverthorne and cellist Tim Hugh; Oct 23
● London Symphony Orchestra: conducted by Richard Hickox in works by Vaughan Williams; Oct 26

OPERA
Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: Ths Merry Widow, by Franz Lehár, in a new translation by Jeremy Sams. New production by Graham Vick, with designs by Richard Hudson; Oct 23, 24, 25, 27

THEATRE
National Theatre
Tel: 44-171-928 2252
● Othello: by Shakespeare. Directed by Sam Mendes and designed by Anthony Ward. David Harewood plays Othello, Claire Skinner is Desdemona; Cottesloe Theatre; in repertory
● The Invention of Love: the protagonist of Tom Stoppard's new play is the poet and classical scholar A E Housman, played by Paul Rhys and John Wood. Directed by Richard Eyre and designed by Anthony Ward; Cottesloe Theatre; in repertory

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works Mozart and Beethoven, and the world premiere of a new work by Donatoni (not 25); Oct 23, 24, 25, 26

■ MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Marinsky Theatre Orchestra: conducted by Valery Gergiev in works by Berlioz, Skrjabin and Shostakovich; Oct 27
● Prague Symphony Orchestra: conducted by Gaetano Delogu in works by Rossini, Brahms and Dvorák. With piano soloist Valéry Afanassiev; Oct 24

DANCE
Bayerische Staatsoper
Tsl: 49-89-2185 1920
Bayerische Staatsballett: Swan Lake. Sets and costumes are by John Macfarlane; Oct 23, 25

OPERA
Bayerische Staatsoper
Tel: 49-89-2165 1920
● Die Zauberflöte: by Mozart. Conducted by Hans Drewanz in a staging by August Everding, with designs by Jürgen Rose; Oct 26
● Elektra: by R. Strauss. Premiere. Conducted by Peter Schneider, in a production directed and designed by Herbert Wsmicke; Oct 27
● The Love for Three Oranges: by Prokofiev. Conducted by Roberto Abbado, in a staging by Juri Ljubimow, with designs by David Borowskij; Oct 24

■ NEW YORK

OPERA
Metropolitan Opera, Lincoln Center Tel: 1-212-362 6000
Turandot: by Puccini. Revival of a staging by Franco Zeffirelli; Oct 23

New Ynrk State Theater
Tel: 1-212-870 5570
Don Pasquale: by Donizetti. New York City Opera. New production, premiered at Glimmerglass, directed by Leon Major and conducted by Lucinda Carver; Oct 23, 25

■ PARIS

DANCE
Opéra National de Paris, Palais Garnier Tel: 33-1-43439696
Paris Opera Ballet: in Swan Lake; Oct 23, 24, 25

OPERA
Opéra National de Paris, Opéra Bastille Tel: 33-1-44731300
● Aufstieg und Fall der Stadt Mahagonny: by Kurt Weill. Conducted by Jeffrey Tate in a production directed by Graham Vick; Oct 23, 25
● Turandot: by Puccini. New production by Francesca Zambello. Conducted by Fabio Luisi. With choreography by Alphonse Poulin; Oct 24, 27

■ TOKYO

EXHIBITIONS
Bunkamura Museum of Art
Tel: 81-3-3477 9252
Photography in Paris 1905-1997: around 240 works by some 53 photographers, on loan from the Centre Georges Pompidou in Paris; to Oct 26

■ TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV
Monday to Friday, Central European Time:

● **NBC/Super Channel**
07.00: *FT Business Morning*
10.00: *European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

● **CNBC**
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

Economic Viewpoint • Samuel Brittan

No 'silver bullet' exists

Increasing the underlying growth of GDP will often require sacrificing much consumption and leisure – and may not even be worthwhile

The UK National Institute of Economic and Social Research used to achieve excessive attention in the 1960s and the 1970s when it tried to second-guess Treasury forecasts and campaign for incomes policies and demand expansion.

In recent years it has turned over a new leaf, but achieves less publicity. Its working model now assumes – what would have been heresy to the founding fathers – that markets clear in the medium to long term, but that there are enough rigidities over periods of up to five years to generate quite large fluctuations in output and activity. Even more important, many of its projections try to tease out what is already implicit in market data. This is quite a difficult technical task, but very different from the old kind of forecasting.

The NIESR does, however, preserve from the old days the rare virtue of explaining clearly the logic behind its findings and not just throwing a set of numbers at readers on a take-it-or-leave-it basis. The analysis is thus useful even to those who do not agree with all the conclusions – often my own position.

The most interesting part of its October Review is the special section on "industrial productivity and competitiveness". Forgive the last word. The authors really mean "performance".

Earlier attempts to account for economic growth put a large emphasis on a residual which could not be explained either by increase in the employed labour force or capital investment. This left a lot of scope for anyone to insert his or her own favourite diagnosis. More recent studies have reduced the size of this residual – largely because of changes in the way that investment is measured and recognition of the improved quality of the labour force due to education and training. It does, bowever, emerge that the residual was quite high in the UK in the 1980s which Nicholas Oulton, the NIESR analyst, suggests was due to the Thatcher reforms.

The effect, however, could be once and for all. The main message that tha Review is trying to get across is that there is now "no silver bullet". Increasing the growth rate by a significant amount requires "sacrificing much consumption and leisure". Growth can only be increased now either by a larger number of hours worked or by more investment. Any success in welfare-to-work policies would help. But the main emphasis is put on more investment.

To make this possible, the NIESR editorial argues that savings must increase. To bring this about, the editorial advocates a tightening of fiscal policy – despite the expected near disappearance of government borrowing. Unless we can count on genuine government spending cuts, such a tightening requires higher taxes. It is advocated in any case to help reduce the sterling exchange rate now and to control inflation when in European economic and monetary union.

The habit of the economic establishment of recommending higher taxes as the cure for every problem reminds me of the fashion among doctors for recommending weight loss irrespective of the patient's complaint.

Why does the NIESR not mention overseas borrowing as an alternative method of financing such investment? If the return is sufficient it will be worth the debt service involved, as Ireland has discovered. To give the resulting balance of payments deficit as an argument against overseas borrowing is a sad example of *lumpeneconomics* (a third-rate substitute for the genuine article, preached by politicians, diplomats and business statesmen).

In fact, the in-house article by Mr Oulton throws doubt on the pay-off from enforced increases in investment. The real cost of capital is put at about 5 to 7 per cent per annum. The typical return is not expected to be that much greater. An even more far-reaching conclusion is that the pay-off to the nation does not much exceed the pay-off to owners of capital – further weakening the case for a forced increase in investment.

Indeed, the aim of promoting the growth of gross domestic product comes under critical scrutiny in a contribution to the Review by Professor Nicholas Crafts of the London School of Economics.

The growth of GDP is a useful measure in dealing with issues such as where a country is in the business cycle or the quality of its economic management in relation to nations of a similar culture and state of development. And it will give one a crude first impression of the ralative success of different emerging countries.

But to make it the be-all-and-end-all even of *economic* policy is pure *lumpeneconomics*. GDP needs at the very least to be adjusted for hours worked. A high income gained from working around the clock may be of less value than a smaller income with more leisure.

The second column of the accompanying table ranks countries in terms of GDP per hour worked. There is a dramatic change in ranking compared with crude GDP per person. The US slips from number one to number nine. Singapore, which appeared slightly higher than the UK on crude GDP, drops back to the 21st position. Belgium advances to the number one position closely followed by France, the Netherlands and Germany, in that order.

Even the adjusted rankings need to be taken with a pinch of salt. Ona wonders how far the continental rankings reflect a genuine high level of voluntary leisure and how far enforced idleness arising from frozen labour markets.

The final column is an attempt at a more comprehensive index of the "quality of life". Such indices are notoriously subjective. Some of them are produced by fanatical environmentalists or unreconstructed egalitarians as part of their never-ending war against market capitalism.

The Crafts index is more modest. It merely tries to correct for bias in GDP per hour, by giving some weight to unemployment, life expectancy, the death rate and years of schooling. More controversially it adds in political and civil rights – which, once a certain level of affluence is reached, may be more important than material welfare.

Not surprisingly, on this index Singapore goes to the bottom at number 24, with South Korea just above it at 23. It must be said, however, that even when the index is adjusted to give less weight to human rights and more to other indicators, Singapore still ranks pretty low, between 17 and 24. It is no surprise to find Switzerland is number one on the quality of life index, nor that it is closely followed by Sweden and the Netherlands.

Mr Oulton's conclusion is that growth-inducing policies in general "should only be contemplated to the extent that there are distortions in tha tax and benefit systems such that people would willingly work harder and save mora if these distortions were removed".

This leads us back to the earlier teaching of political philosopher Michael Oakeshott: that the state is best seen as a civil association to enable individuals, families and voluntary bodies to fulfil their own purpose, rather than an enterprise association with purposes of its own. But that is going too deep for the spin doctors.

World league table

Rankings for 1992	GDP/ person	GDP/ hour	Quality of life
US	1	9	=10
Switzerland	2	6	1
Japan	3	18	4
West Germany	4	4	=7
Hong Kong	5	19	13
Denmark	6	11	17
Canada	7	7	=5
France	8	2	=7
Norway	9	5	=5
Belgium	10	1	=10
Austria	11	8	=10
Sweden	12	10	2
Netherlands	13	3	3
Australia	14	12	9
Italy	15	14	18
Singapore	16	21	24
UK	17	15	15
Finland	18	17	14
Spain	19	13	19
Ireland	20	16	=20
Taiwan	21	23	16
Portugal	22	22	22
Greece	23	20	=20
South Korea	24	24	23

Sources: Crafts, NIESR Review

Personal View • Lee Hamilton

Trade on a fast track

Without the ability to open up foreign markets, the US economy will suffer

The US Congress is expected to vote over the next sevsral weeks on whether to grant Bill Clinton, the US president, "fast-track" authority to negotiate trade agraements. Under fast-track, Congress agrees to hold single expedited yes or no votes on trade agreements in exchange for extensive input into the president's negotiating strategy.

Without fast-track, US trade policy will grind to a halt because other governments will not conclude trade deals with the president if Congress can later revise them. Agreements that expand trade will create jobs and raise wages both in the US and elsewhere.

Between 1974 and 1994 every US president had fast-track authority. They used it to achieve two substantial worldwida agreements that cut trade barriers and boosted US exports. Earlier this year, the US nailed down agreements, initiated before fast-track authority lapsed, that will cut prices for international telephone calls and eliminate barriers to exports of information tachnology products. Because US markets are already so open, trade deals usually require other countries to do more to lower trade barriers – to the US's great advantage.

US prosperity increasingly depends on finding new foreign markets for the things Americans make and grow. One of every eight US jobs is at least partly supported by exports. Ninety-six per cent of the world's consumers live outside the US, and we need better access to these potential customers if we want to preserve or increase our 20 per cent share of the world's wealth. Trade agreements provide that access. Consider what the US loses without fast-track. Without it, we will not be able to lead planned multilateral talks on reducing trade barriers in agriculture and services, two sectors in which US producers are highly competitive. Europe and Japan will secure preferential access to Latin American and Asian markets at our expense. New deals in sectors in which the US leads world industry – such as automobiles, energy equipment and medical technology – will remain out of reach. Foreign trade barriers that are hurting US workers and farmers will remain in place. Rules affecting the sale of our products overseas will be written by others, not by the US.

Critics of fast-track argue that US jobs and wages are hurt by low labour and environmental standards in other countries. They want trade agreements to require other countries to raise these standards. But there is no international consensus on how – or even whether – to address labour and environmental matters in trade agreements. To insist that other countries make such changes is to condemn trade negotiations to failure.

A far more effective way to encourage others to improve labour and environmental standards would be to help them grow. For that they need increased trade and the US needs fast-track.

Fast-track is also important for the achievement of important US foreign policy objectives:

● Most Latin America nations have embraced democracy and free markets. Increased trade with the US will stimulate growth, providing a payoff for painful reforms. That will solidify democracy and enhance US influence.

● US-led efforts to reduce trade barriers in the Asia-Pacific Economic Co-operation Forum (Apec) will help maintain America's leadership role in Asia.

● Better access to world markets is critical to the success of economic and political reform in eastern Europe, and to the independence of the countres of the former Soviet Union.

● US-led efforts to reduce trade barriers have contributed to a dramatic increase in global prosperity since the second world war, reducing the potential for international conflict.

● Trade is an increasingly important dimension of international relations. Continued trade leadership will reinforce US foreign policy leadership. A rejection of fast-track will signal a retreat from our role as world leader.

Despite the power of these arguments, deep-seated concerns about the impact of trade on the US economy are threatening not only fast-track, but also public support for trade liberalisation. Several things must be done.

First, the president must persuade Americans that, if he is granted fast-track, he will use it aggressively to knock down foreign trade restrictions and deliver agreements that increase good-paying jobs.

Second, programmes to help workers adjust to foreign competition should be strengthened. Expanded trade benefits the US economy as a whole, but it does hurt some workers, especially the less skilled.

Finally, a better job must be done of explaining the importance of trade to the US. We need to highlight the jobs created by exports and the benefits of imports both to consumers and producers and to explain that low productivity in developing countries often neutralises any competitive advantage provided by their low wages. We need to document tha strength of US manufacturing, and how US workers are being hurt by recent trade agreements concluded without our participation – because of the absence of fast-track authority.

Fast-track will empower the president to open foreign markets – to the benefit of the US economy and US foreign policy. Without fast-track, our economy's potential will be unfulfilled, and our international leadership will be diminished.

The author is the ranking Democrat on the International Relations Committee

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

Euro: currencies' centre of gravity

From Mr David Martin MEP.

Sir, Whereas in the UK the public debate on Emu still centres on questions of "if and when the euro happens, should we join?", in the US they have made up their minds. They are convinced that there will be a single European currency, and they want to know how it will affect the dollar in the global market place.

Europe creates 30 per cent of the world's wealth and accounts for 20 per cent of international trade. But with 14 currencies, the UK's role in the international monetary scene is limited. The introduction of the euro on 1 January 1999 will vastly increase the European Union's power and ability to create wealth. Does the UK seriously want to exclude itself from that possibility?

The economic and commercial weight of Emu will be comparable to that of the US and larger than that of Japan. Once the euro is up and running it is likely to form the centre of gravity for other currencies leading to a euro zone in global markets. That euro zone is likely to consist of the whole of Europe, the Middle East and parts of Africa. It is conceivable that between 25 and 30 per cent of world currency reserves will be denominated in euros.

The single currency is being introduced at a time when the international monetary system is already in a period of transition, with the dominant position of the dollar giving way to a more multi-polar system. Although the dollar will maintain its key position in the global economy, the euro will advance to becomethe second major currency n the world as a transaction, investment and issuingas well as reserve currency.

As volatility betweenthe world's major currencies may increase it will be necessary to build new forms of international co-operation, perhaps even new institutions. Our responsibility will be truly global.

The Americans are convinced that both economically and politically theeuro and the EU are set to become major players on the world scene. Perhaps it is about time wa got that message and acted accordingly.

David Martin,
vice president of the European Parliament,
4 Lothian Street,
Dalkeith,
Midlothian EH22 1DS, UK

Volatility of pound will continue

From Mr R. J. Farrell.

Sir, Andrew Sentance (Letters, October 16) says that recent volatility in the sterling exchange rate made entry into economic and monetary union highly undesirable. If the pound stays out of Emu it will almost by definition remain a volatile currency, as it always has been. Usually the volatility has been a continual devaluation to compensate for generally higher UK inflation.

Emu has two main influences on foreign exchanges vis a vis the pound and D-Mark. First, the D-Mark has weakened because of its replacement in a few years by a weaker euro.

Second, the pound has strengthened relative to the D-Mark and other European currencies mainly because it appears Britain will not join Emu.

If the UK decided to join, the pound would naturally quickly adjust itself to a more stable and realistic level prior to entry. The UK might then experience financial stability, low interest rates (horror) and an easier life for exporters (of which we are one, but probably not for much longer).

R. J. Farrell,
managing director,
Farrat Machinery,
Balmoral Road,
Altrincham,
Cheshire WA15 8HJ, UK

Political barriers to success of Emu

From Mr Eugene Kasozi.

Sir, It is with dismay that I read yet another article ("Emu's new horizons", October 16) focusing on the utopian scenario wherein European businessmen live happily ever after, post-economic and monetary union, as a result of the theoretical advantages afforded by an "integrated European economy". Yet again, the US model is rolled out as an example of a large continent with shared monetary policy.

It is entirely illogical to compare the two without addressing the one crucial difference: political union. While your writer touches on this by asserting that the power of national jurisdictions and governments will be less significant to companies, he fails to state the obvious: that is, that Emu cannot and will not work without political union.

Without getting into the arguments about differing fiscal policies, economic cycles and mobility of workforce, it is clear that at a basic level an arrangement whereby any one of the members may exercise its sovereign right to withdraw when the prevailing climate is not to its liking, cannot last.

We are all aware of the theoretical advantages of Emu. The real question is whether or not political union is acceptable to Europe's voters and this should be the starting point of any discussion on Emu.

Eugene Kasozi,
15 Rue Brey,
Paris 75017, France

Bookbuyer's patience taxed

From Mr Peter B. Nowell.

Sir, Your editorial "Copywrong" (October 21) omitted two salient arguments: speed and tax. I have long given up ordering books in shops in the UK, having been made to wait four to six months for damaged stock. I have just received a book from an internet shop in the US. From order to arrival, it took nine working days. The Publishers Association cannot expect tha patience of angels from the British public.

An additional bonus will be no sales tax. At the moment, books are zero-rated for VAT purposes. But if European harmonisation is to be complete, then British books will have to be taxed too. All the more reason to buy American. Unless internet tax is imposed . . .

Peter B. Nowell,
SBC Warburg Dillon Read,
London EC4V 3SB, UK

Removing conflict of interest in the global 'super-firms'

From Mr John Corr.

Sir, Jim Kelly ("When six is a crowd", October 20) highlights a potentially significant conflict of interest between the duties of an auditor and those of a management consultant, particularly when the proposed mergers of four of the "big six" accountants will leave 88 per cent of the FTSE 100 Index companies using the two newly proposed global super-firms.

Perhaps the risks of conflicting interests could be removed by preventing the legally appointed auditor from providing other services to its clients?

John Corr,
Well House,
Marston,
Devizes,
Wiltshire
SN10 5SR, UK

COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Thursday October 23 1997

The right road to Emu

However the Britisb government's forthcoming statement concerning its intentions towards European monetary union is nuanced, it must say two things to reassure business, the markets and the UK's European partners. First, it must state a clear commitment to join Emu in principle early in the next century. Second, it must say how it intends to prepare for entry.

Unless it does both these things, Labour will be hard pressed to re-establish its credibility after the turbulence of recent weeks. Worse still, it will risk jeopardising the prospects of joining Emu for the foreseeable future. The results could be a growing estrangement from Europe and a punishment from the markets.

Against this background, quibbling about the precise date for entry seems trivial. What matters is the government's commitment and its actions.

So what is tha government's real difficulty? Gordon Brown, the chancellor, has said much in recent days about the misalignment of the economic cycles in Britain and continental Europe. This clearly is an obstacle to entry in 1999. But when the chancellor addresses parliament, he should not exaggerate the difficulty. It need not stand in the way of a broad commitment to join later.

What would be worst is continued uncertainty. This would keep UK long term interest rates higher and sterling stronger than they need be, deter investment and damage business. Moreover, it would sit ill with Labour's professed ambition to lead in the EU.

Mr Brown's statement must therefore do more than make a vague gesture towards Emu. He will need to start a programme to prepare Britain for entry on or around 2002.

Exchange rates

Even if this commitment were bedged – as it should be – it would be more likely to promote the period of stability which Mr Brown says he wants tban would a continuation of the present confusion. France, Germany and the other core countries which expect to join Emu in 1999, have enjoyed stabls exchange rates for more than a decade. Their desire for Emu has caused their long term interest rates to converge, and short term rates are now movtog in synch.

For tbe UK, such harmony might seem distant. The real value of sterling is some 15 per cent above its average for the period 1984-96. UK interest rates at 7 per cent are almost four percentage points higher than those in Germany.

Further rise

These facts would indeed raise difficulties if the UK wanted to join Emu in 1999. However, bigh interest rates with a high exchange rate could reflect a market expectation that both will fall to continental levels in five years' time.

Even a further rise in rates might not alter such expectations if it helped to convince the markets that UK inflation was under control for good. But Mr Brown will find it mucb harder to instil this expectation without a firm commitment to Emu. That would show a determination not to soften the official inflation target. More important, it would be the best guarantee that the government will stick to a tight fiscal policy.

Cyclically adjusted, the government's budget deficit next year may be only about 1 per cent of gross domestic product. This is a huge improvement compared witb recent years. But it represents a tightrope the government could easily fall off.

A clear commitment to Emu would reinforce the government's hold on monetary and fiscal policy. It also offers tbe best prospect for a convergence of economic cycles in the medium term, especially in view of the current German recovery.

These are goals well worth striving for in tbemselves. Britain has the chance to join Europe in a period of historically low inflation and economic stability. Neither history nor the markets will forgive this government if it throws that chance away.

Korea: a bailout too far

"Changes and restructuring are not a matter of choice; they are a matter of survival". So said South Korea's finance minister, Kang Kyong-shik, less than three months ago. Yesterday be spoke a very different language. He annonnced tbat the Kia motor group, Korea's eighth-largest *chaebol*, was to be nationalised. This was a giant step backwards in the reform process that is necessary for Korea's future prosperity.

Korea's economic strength was built on the success of its giant conglomerates, such as Hyundai and Samsung, which now overwhelmingly dominate the economy. These companies were able to expand at a rapid rate thanks to a policy of directed lending. The government regarded the *chaebol* as pillars of the economy, and implicitly guarantsed thsy would not fail. Banks and financial institutions therefore had no qualms about lending them money, whatever the health of the underlying business.

Inevitably, this resulted in astronomical levels of gearing, averaging 400 per cent among the largest conglomerates. The result was serious overcapacity across a wide range of industries. At some point the crunch had to come.

The government could use the current crisis as an opportunity to start the reforms Korea so badly needs. The question is, does it have the courage?

Market forces

Until yesterday, the aigns were encouraging. Two troubled *chaebol*, Hanbo Steel and Sammi Steel, were allowed to fold earlier this year. Banks were forced to take losses. At last the government appeared to be retreating from its all-powerful role at the head of the economy, and to be allowing market forces to run their course. Tba banks swiftly took heed, and called in loans from other *chaebol* heading for problems. The painful shift from a centrally-planned economy to one based on the market bad begun.

With the bailing-out of Kia, and the recent acquisition of a stake in Korea First Bank, the government has returned to the bad old days. Nationalisation is the easy way out. The signal it sends is that the government is, once again, ready to act as guarantor. The consequence will be deepening moral bazard, in which the banks carry on lending as before to fund inefficient and failing businesses, in the belief they will eventually be bailed ont.

Foreign capital

Matters bave been made worse by the barriers to foreign participation in the Korean economy. Tbe country's capital markets remain largely closed to foreign investors. The equity market has a ceiling for overseas investment, and the bond market is closed to it entirely.

But Korea can no longer afford this insularity. It needs to allow greatly increased foreign participation in its markets. There are two ways in which liberalisatioo would help the economy to get back on its feet. First, the stronger *chaebol* (and there are some which remain in very good health) would gain access to cheaper foreign capital. This would improve their financial position and allow them, perbaps, to take over some of the failing companies. Second, the government could encourage overseas companies to consider buying up some of the weaker *chaebol*, nr even legalise bostile takeover bids by overseas companies.

Foreign investment is, admittedly, no ready panacea. Korea cannot expect raally significant interest from foreign companies until it changes its labour market. At present, it is virtually impossible to fire workers in Korea without provoking serious labour unrest. Reform will be painful, bnt is desperately needed before rationalisation can take place.

The Korean government must show that it is prepared to loosen the reins, and let market forces take over. In doing this, it should not be afraid to seek outside help. As the finance minister knows, this is the only route to prosperity.

Chilled by an ill wind

Turmoil in Hong Kong's financial markets is testing confidence in the territory and the exchange rate system, says **John Ridding**

Like tbe seasonal typhoons that gatber strength nbove tbe South China sea before heading north to wreak their havoc, the region's financial turbulence has swept into Hong Kong.

Just a few months after tbe territory returned to China, regional currency crises have prompted a plunge in the stock market, a sharp rise in money market interest rates and injected a note of financial instability into a surprisingly smooth political transition. Apart from steep losses, investors bave been left witb concerns about tbe exchange rate system – the linchpin of the economy – whicb pegs the Hong Kong dollar to the US greenback.

"We are seeing the dénouement of the south-east Asian currency crisis," says John Mulcahy, managing director of todosuez W.I. Carr Securities, citing pressures on the Hong Kong dollar. "We are shaping up for the gunfight at the OK Corral." The wave of devaluations across south-east Asia, says Mr Mulcahy, has focused attention on Hong Kong's exchange rate system, the region's last formal peg, and on its economic competitiveness.

For Hong Kong, the stakes are high. "If the peg were to go it would be a devastating blow to confidence," says Chi Lo, senior regional economist at Deutsche Morgan Grenfell. "Take away the currency link and tbis place looks like a house of cards," adds one equity strategist at s US investment bank.

Such claims reflect the role of the exchange rate system since the peg was set at HK$7.80 to the US dollar during a financial crisis in 1983. Backed by China, it has proved a source of stability through political upheavals, the anxieties of the period after the Tiananmen Square massacre, and the Sino-British wrangles of the transition.

"Investors see tbe peg as a guarantee of the value of their assets and the financial foundations of tbe 'one country, two systems' concept," says the managing director of one Hong Kong blue-chip company.

Aware of what is at stake, the Hong Kong government bas underlined its commitment to the currency system. "There is no political or economic need for us to disband the Hong Kong dollar peg," Donald Tsang, the financial secretary, said yesterday.

"Ths linked exchange rate has served us very well for the past 14 years," said Tung Cbee-hwa, the territory's post-colonial governor. "We see no reason to change it."

Such arguments receive support from surprising quarters. George Soros, the US-based financier and nemesis of fixed-rate regimes, last month described the maintenance of confidence as the priority in a financial services centre sucb as Hong Kong. "The sdvantages of stability outweigh the disadvantages of being overvalued," he told an audience at the annual IMF/World Bank meeting last month.

But amid the regional upbeaval, these disadvantages are increasingly significant. "Hong Kong has been looking very exposed and its competitiveness has been blunted by the devaluations in the region," says the bead of capital markets at one investment bank. "There is a structural problem in that its economy is increasingly tied to China and the region – and not to the US."

Tourism is particularly vulnerable to the impact of devaluations, having already been battered by a sharp fall in Japanese visitors. "What should have been a bumper year is turning into the worst situation for passenger revenues in decades," said David Turnbull, managing director of Cathay Pacific, in a recent letter to staff at the Hong Kong airline. "It is without doubt one of the toughest periods we have faced for many years."

James Tien, chairman of the general chamber of commerce, this week hinted be favoured s review of the exchange rate peg, warning of its impact on manufacturing industries. Mr Tien's views, though described by the chamber as personal, were seen as marking a crack in the business community's solid support for the currency system.

With more than 80 per cent of gross domestic product coming from services, the real threat lies in the property and banking sectors, the twin pillars of the economy. Money market interest rates have jumped from about 7 per cent at the start of the week to more than 10 per cent yesterday. "With interbank rates having shot up, it is inevitable that banks will have to raise prime rates and mortgage rates," says Archis Hart, director of equities at BZW (Asia).

Although Hong Kong banks are robust, with non-performing loans well below 5 per cent and high capital adequacy ratios, they are heavily exposed to any downturn in the property market. "More than half of banks' loans are to the property sector," says Mr Lo at Deutscbe Morgan Grenfell. "That is about the highest level in the region."

The potential impact on Hong Kong banking and property groups is already evident in a series of earnings downgrades and sliding share prices. Cheung Kong, the property developer and the flagship of Li Ka-shing's business empire, has seen its shares fall more than 35 per cent over ths past week. Shares in Hang Seng Bank have fallen by 13 per cent. The blue-chip Hang Seng index has fallen more than 30 per cent since its August peak.

As for the economy in general, many investment banks are reducing tbeir forecasts. Dong Tao, senior economist at Schroders, says be is now expecting growth of less than 5 per cent next year, compared with an initial target of 5.8 per cent.

In spite of the damage, Hong Kong's government seems prepared to go through a lot of pain to defend the peg. "The Hong Kong Monetary Authority [tbe territory's de facto central bank] has a choice: to flood the market with liquidity to keep rates down or let interest rates rise to increase the risks and the cost to speculators," says Mr Mulcahy.

As inter-bank rates bave climbed this week, it seems clear which course is being dictated by Josepb Yam, the head of tbe HKMA. The monetary authority declines to commeot on signs of speculation. Bnt market commentators noted strong selling pressure and a slip in the currency towards a perceived support level of HK$7.75 (£0.61).

"There is no reason for interbank rates to be up above 9 per cent unless there is a flight of the Hong Kong dollar into the US dollar," says Mr Mulcahy. Currency traders say pressure was amplified as companies responded to risks by buying US dollars in the forward market.

Apart from political will, the Hoog Koog authorities bavs powerful weapons against such speculators. Witb foreign exchange reserves of US$80bn at the end of August, the territory's muscle to intervene is far greater than elsewbere in the region. Determined to maintain the prosperity of its capitalist prize, and to safeguard tbe value of its substantial investments in the territory, China bas also pledged its support. Speaking ahead of ths July handover, Dai Xianglong, governor of the People's Bank of China, said Beijing would commit its own reserves of US$120bn sbould they be needed to defend the Hong Kong dollar.

Technical factors are also significant. "What makes the Hong Kong dollar different from other Asian currencies is not that it is fixed at a more defendable rate, but that it is fixed by a different system," says Nicholas Kwan, regional chief economist at Merrill Lynch. As a currency board system, be notes, the Hong Kong dollar is fully backed by US dollar reserves at the fixed official rate. "This effectively deprives the government of the means to debase the currency."

But since reserves do not cover all of M3, the broadest measure of money supply, the Hong Kong dollar is still potentially vulnerable to a collapse of public confidence. But at the institutional level, at least, the authorities' discipline is strong. As Mr Lo at Deutscbe Morgan Grenfell puts it: "The HKMA is a single-minded sentinel of the peg, acting as a money cbanger with absolutely no domestic policy obligations."

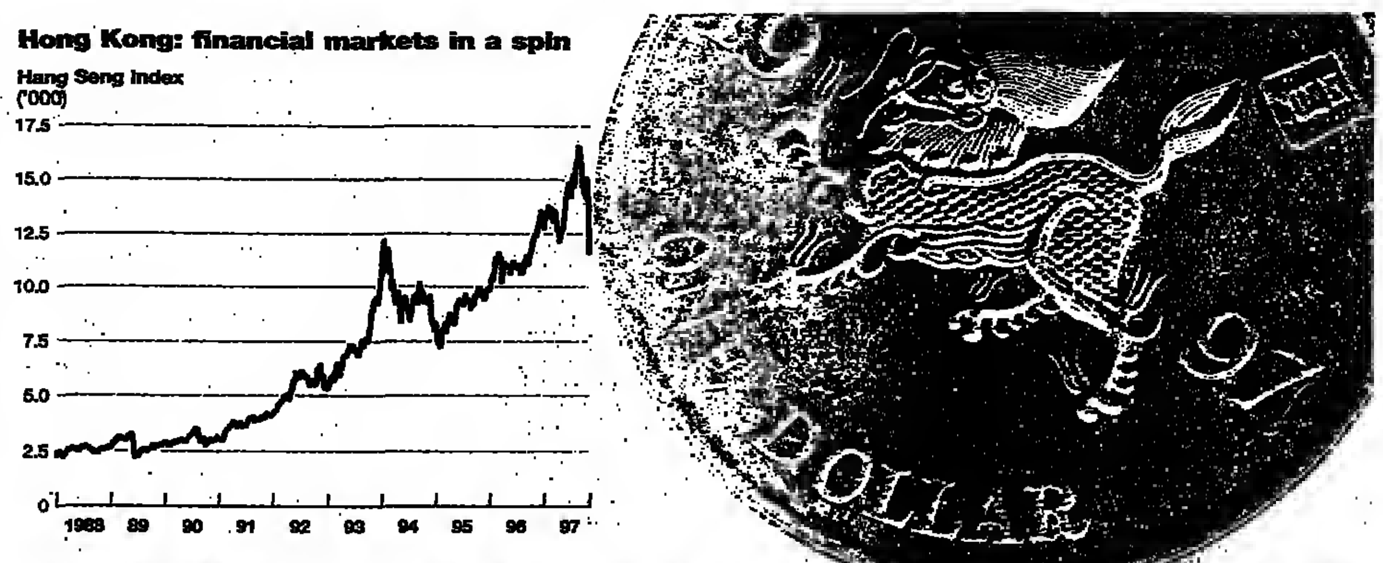
In the battle against speculators, the HKMA has other technical advantages over its regional counterparts. A limited number of Hong Kong dollar marketmakers, based onshore, and a real-time gross settlement clearing system means that any assaults on the Hong Kong dollar are quickly apparent.

In the past, this arsenal has proved more than adequate. Hong Kong shrugged off the side-effects of the 1995 Tequila crisis sparked by Mexico's devaluation in Latin America. A speculative attack in July was repelled within a matter of bours, according to Mr Tsang, the financial secretary.

The longer the regional turmoil and the more damage that is done to Hong Kong's economy, the more difficult the defence could become. While many market commentators hold out the prospect of reforms to tbe exchange rate system a few years down the road, perbaps to a basket of currencies, few see any changes so near the handover or during a period of financial upheaval.

"The peg can withstand these pressures," says Stepben Shu, chief regional economist at Standard Chartered Bank. But there is certain to be a rocky ride for the markets and a stiff test of Hong Kong's resolve.

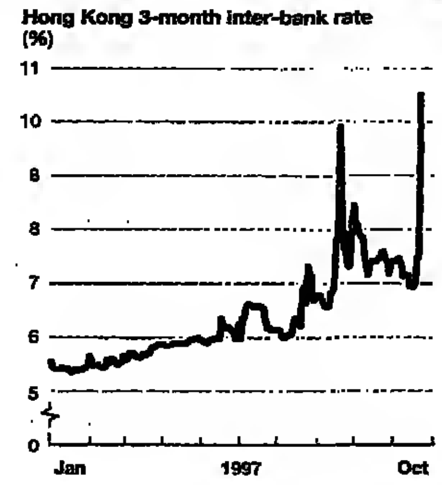
Hong Kong: financial markets in a spin

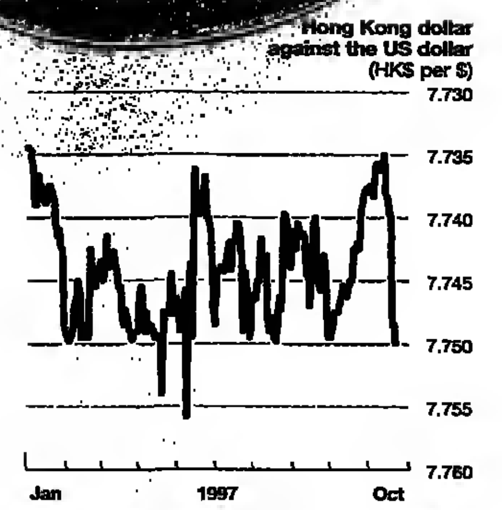


Current account balance*

	% of GDP
China	0.1
Hong Kong	-0.6
India	-1.8
Indonesia	-3.8
Korea	-4.8
Malaysia	-6.2
Philippines	-4.3
Singapore	15.0
Taiwan	3.8
Thailand	-8.0
Argentina	-3.8
Brazil	-0.2
Mexico	-8.1

*1996 data for Asia, 1994 data for Latin America





Sources: World Bank, IMF, Datastream/ICV, Merrill Lynch, country sources

· OBSERVER ·

How now, Dow Jones?

■ Michael Price, the investor once labelled "the scariest S.O.B. on Wall Street", is st it again. What if, he wonders, two of America's most illustrious family-controlled companies were to join forces? "It would be an absolute knock-out deal," the New Jersey-based investor mused yesterday.

The companies in question are Dow Jones, owner of the Wall Street Journal, and the Washington Post. Price controls 6 per cent of the former through his Mutual Seriea funds; and the man who nndged Chase toto merging with Manufacturers Hanover isn't afraid to use his clout.

But Price, 46, readily admits that there are serious obstacles to his latest Big Idea. Neither the Bancroft family, which controls Dow Jones, nor the Graham clan, which controls the Post, is ready to give up control. The presence of Warren Buffett – already a big shareholder in the Post – might help oil tha wheels, though Price says they've never talked about the plan.

Even so, his intervention – full details in the next issue of Fortune Magazine – won't be welcomed in the Dow Jones boardroom. The company's already changed its mind in recent days about its financial markets unit, once known as Telerate; instead of ploughing money into the troubled business, it's now looking at other options.

Price's preference is to keep Telerate within a new Dow Post company, where it would seem "a smaller problem". The Bancroft family, though, shows no signs of playing along. "This will never happen," says Price of his self-confessed pipe-dream. "I think they're going to sell Telerate, and that's that."

First Poste

■ George Poste, the SmithKline Beecham science sage who's joining British biotechnology outfit Cerebrus as chairman, is really a frustrated racing driver.

Son of a British car mechanic, in the 1960s Poste made it into Formula 5000 before a nasty crash in Germany forced him to consider less hazardous careers. But there was no question of a switch to the slow lane. The sparky 53-year-old rose to become head of research and development at SmithKline – aided by a legendary ability to go without sleep and a capacity for speed reading.

The combination of drive, stamina and a serious scientific mind has mads Poste seriously rich. Some of the money has gone on a ranch in Arizona, where he keeps in touch by satellite telephone, and two Humvees – the ultra-wide military vehicle made famous in the Gulf war. He hasn't crashed them, yet.

Ugandan talks

■ President Yoweri Museveni of Uganda today pops into the Swaminarayan Mandir temple in London on his way to meet other Commonwealth leaders in Edinburgh. He'll be there to ask for forgiveness from a special audience of Ugandan Asians, many with deep pockets but all with long memories of their expulsion by Idi Amin 25 years ago. Given their collective financial clout, the support of one-time Nairobi and Kampala business leaders could prove rather useful for the leader of a reformed Uganda. Not for nothing is the temple known as the East African Chamber of Commerce in exile.

Maybach is back

■ The resurrection of Wilhelm Maybach turned from rumour to reality yesterday as Mercedes-Benz rolled out its planned new Maybach limousine amid the glitz and glamour of the Tokyo motor show.

Once chief engineer to Gottlieb Daimler, co-founder of the Daimler-Benz empire, Herr Maybach lent his name to a stable of luxury motors right up until the 1930s. The new limo will also be aimed squarely at the world's plutocrats; it's got more gizmos than the flagship S600 Mercedes and will be priced to compete head-on with the whispering giants of Rolls-Royce.

Mercedes has always had a special place in the hearts of well-heeled Japanese; as a young man, Emperor Hirohito ordered seven bullet-proof versions of the massive Grosser Mercedes 770 and drove around in his Germanic jalopies for the next 50 years.

Speak easy

■ The Geneva-based World Trade Organisation held 2,340 meetings last year, the equivalent of 10 a day, allowing for weekends and holidays. And not everyone's happy about the endless gassing.

Egypt says it's impossible for poorer countries – with only two or three people covering the whole United Nations – to keep up. It wants a guarantee from the WTO that no more than two meetings will take place at the same time. Some hope – the WTO's predecessor, Gatt, was known as the General Agreement to Talk and Talk.

The Financial Times

100 years ago

Turkey And Greece
Constantinople: In order to expedite the conclusion of a definitive treaty of peace, it has been decided that the Turkish and Greek Plenipotentiaries shall hold daily sittings. They met yesterday and to-day at the Ministry of Foreign Affairs. The Porte has sent a fresh telegraphic circular to the Ottoman representatives abroad, instructing them to request the Powers to which they are accredited, to hasten the pourparlers to be held in this city regarding the Cretan question, on the basis of the principle of autonomy already conceded to the island.

50 years ago

Eisenhower Candidate?
General Eisenhower, Suprems Allied Commander during the war, will "in all probability be Republican candidate for the next United States Presidential election," Mr Henry Wallace, former U.S. Vice-President, told the Jerusalem Jewish Journalists' Association at a lunch in his honour to-day. Mr Wallace said: "If Eisenhower runs on either a Republican or Democratic ticket, he will win hands down. A ticket with Eisenhower and Harold Stassen (former Governor of Minnesota) running against Truman would carry all but the Southern states . . .".

FINANCIAL TIMES
Thursday October 23 1997

Dutch appeal after court overrules EU trade deal

By Gordon Cramb in Amsterdam

The Dutch government will today begin an appeal against a *national* court ruling that prevents it from going along with a decision reached by the European Union's council of ministers.

The ruling by judges in The Hague forbids the Dutch from co-operating in the EU's planned retreat from a trade regime that favours imports from present and former colonies in the Caribbean.

Legal experts say it is the first time any national court in an EU member country has overruled its government's position on a council issue. In this case, as the issue requires unanimity among member states, the ruling also means that the council's decision can*not be implemented* until the legal position is settled.

The European Commission has been trying since 1993 to water down an accord that gives so-called Overseas Countries and Territories (OCTs) free access for agricultural and *industrial* products. The Dutch had strongly opposed changes to the schems, which had allowed its OCTs, the Netherlands Antilles and Aruba, to build a processing industry for consumer commodities.

But Hans van Mierlo, foreign minister, at a meeting with his EU counterparts in Luxembourg on October 6, gave way on the issue under pressure from Brussels.

His reversal came just hours before the scheduled ruling by the district court in The Hague in a case brought by Emesa Sugar, owner of a processing plant in Aruba. The court found that Emesa's export business would otherwise evaporate and that the EU had little to fear economically from the arrangement as it stood.

In a more detailed judgment last Friday, the legal bench said that representatives of the Antilles and Aruba had been overruled by Dutch ministers that same morning so the Luxembourg meeting could reach a rapid compromise which the government knew would pre-empt the court's finding.

It ruled that the political decision reached in Luxembourg was non-binding and forbade the Netherlands to co-operate with EU plans to curb produce of OCT origin until the European Court of Justice had clarified matters. The fine if these strictures were ignored was Fl 500m ($248m).

The Hague foreign ministry argues that it was not obliged to wait for the outcome of the case, but acknowledges that it can do nothing until there is a verdict on the initial appeal at the national level, expected in November, when EU permanent representatives will also discuss the setback. If the judgment is upheld, a European court pronouncement could take years.

Dutch sugar ruling, Page 7
Netherlands survey, separate section

Telecoms suitors to begin formal bid talks with MCI

By Alan Cane in London and William Lewis and Richard Waters in New York

MCI, the US group at the centre of one of the most dramatic takeover struggles in telecommunications history, will today begin formal talks with its three competing suitors – WorldCom, GTE and British Telecommunications.

The first discussions will involve MCI, BT and GTE, which last week made a $28bn all-cash offer for the US operator. MCI and BT will then hold talks with WorldCom, whose own all-share bid is worth about $30bn.

MCI is expected to be represented by Bert Roberts, chairman and chief executive; BT by Sir Iain Vallance, its chairman, and Sir Peter Bonfield, chief executive; GTE by chairman Charles Lee; and WorldCom by chief executive Bernard Ebbers. Informal talks between the four companies took place this week but today marks the beginning of the formal process.

Sources close to the discussions stress as an important factor BT's conviction that although its offer for MCI – at about $24bn in cash and shares – is the lowest of the three, its 20 per cent holding in MCI and other legal factors have equipped it with a partial veto over other bidders.

BT can, for example, delay a hostile bidder from taking control of MCI for a year. But advisers to other companies involved in the bidding say that while BT is in a position of influence, it will be MCI's decision. "BT has some cards, but they should not be overstated," one adviser said.

BT has consistently said its preferred global telecoms partner is MCI, indicating that it still believes its original merger plan with MCI could be consumated, with a third partner – almost certainly GTE – brought in on favourable terms at a later date.

Some advisers suggested yesterday that such a solution would have the least problems in finding regulatory approval, as all the mandatory clearances have been secured. This scenario is thought to be similar to one devised by BT and GTE in talks before the WorldCom bid.

But others involved in the talks reacted with incredulity to the idea that BT could succeed with its bid without raising the value. "There would have to be a lot more money offered or some funny gas sucked if MCI's shareholders go for BT," one said.

Tomorrow WorldCom will try to step up the pressure on GTE by highlighting at a press conference in Washington DC the regulatory difficulties its rival may have with its bid.

Boeing blames loss on strong demand

Continued from Page 1

analyst at Lehman Brothers in New York said: "The issue for investors now is that it will take Boeing most of 1998 to work through the production ramp-up. The group will probably have a great 1999, but that is a long way away."

By mid-day yesterday, Boeing's shares had fallen 8 per cent to $49⅞.

Wolfgang Demisch of Bankers Trust warned: "This industry is still in a rampant upphase and that means there could be more problems next year." He expressed concern that Boeing would have to take an additional $1bn charge in the fourth quarter from writing down assets of McDonnell Douglas, which Boeing acquired earlier this year.

Analysts believe that Boeing is set to stop producing McDonnell Douglas civil aircraft. Boeing said yesterday, however, that it had not yet made any decisions on the future of the McDonnell Douglas civil aircraft programmes.

Boeing first made its production problems known in September, when it said it would have to delay the delivery of 12 aircraft. Boeing could not say yesterday whether further deliveries would be delayed.

Mr Condit said the sudden increase in demand had caused "major inefficiencies throughout the entire process chain". Materials, aircraft and parts were in the wrong places and recruiting the new employees had caused further inefficiencies. He said it would take until next year for production to be fully restored.

Frankfurt outstrips London's Liffe on long bonds

By Samer Iskandar in London

Germany's chances of dominating the futures market for long-term government bonds were given a significant boost this week when Frankfurt's market share in Europe's most liquid instrument rose above London's for the first time.

Deutsche Terminbörse yesterday said it had traded 183,846 futures on German 10-year bonds – bunds – or 52 per cent of total activity on Tuesday against 169,460 lots on the London International Financial Futures and Options Exchange.

The news is likely to increase competition among Liffe and its French, Swiss and German rivals, which forged an alliance last month to offer all their products on a single electronic trading platform. It also weakens Liffe's claim that its open outcry trading, where traders face each other on a large floor, offers better liquidity – the ability to trade large amounts – than electronic trading, which is cheaper.

"We have to concede that DTB is making inroads into our market share," Liffe said yesterday. "But this is only on one simple product. More complicated instruments [such as options and short-term interest rate futures] are still much more liquid in open outcry."

DTB yesterday said it was confident it would retain a "steady 50 per cent share of the [bund] market for the rest of the year".

Liffe still has a significant lead over its European rivals on short-term interest rate contracts.

But dominance of bund futures, Europe's most actively traded long-term bond contracts, is seen as a key factor in the fight for market share in the run-up to European economic and monetary union.

The market for interest rate derivatives is expected to shrink as Emu brings the financial markets of participating countries closer together, reducing the need for futures and options as a protection against sharp moves in interest rates.

Traders said Tuesday's event was symbolically important. "A lot of people have been waiting for this to happen," said a derivatives salesman at a large Paris bank , also active on Liffe.

DTB has been gradually increasing its share of the bund market – from around 30 per cent in January to roughly 45 per cent during the summer.

Bonds, Page 22

THE LEX COLUMN

Typhoon in a teacup

Fears that plunging Hong Kong share prices will unravel the global bull market look overdone. Sure, the 23 per cent fall this month has been disconcerting. Hong Kong was supposed to be the safe haven from Asian disarray. Now it too has been contaminated by currency jitters and rising interest rates. For fund managers groggy after serial muggings first in Japan, then in south-east Asia, this last cut will have been the deepest: most US and UK fund managers are heavily overweight in Hong Kong.

Logically, there are no grounds for a spillover on to Wall Street, or into Europe. They share neither the economic attributes of the Asian countries, nor the peculiar risk of Hong Kong's peg to the US dollar. Moreover, inasmuch as Asian stock markets have been undermined by currency weakness, the world's currencies cannot all be weak together.

In fact, if Asian deflation is exported into the US, *this could* actually help asset prices by capping any rise in interest rates. And if Hong Kong's *difficulties prompt* general investor withdrawal from Asia, these flows should provide *support to* the mature markets. With Latin America having enjoyed large gains this year, investors would be unlikely to take a punt on another emerging market.

If fundamentals were the only factor at work, pressure on the Hong Kong dollar would abate and life would return to normal. But with many markets at valuation extremes, the risk, however irrational, of Hong Kong sparking a wider correction cannot be altogether ignored.

Investment banking

The recent flood of mega-deals has revived an ancient chestnut: how far are such forays the product of over-enthusiastic investment bankers egging management on? It is true that the bankers have an obvious conflict of interest. Supposedly, they are there to provide dispassionate advice. But since big deals generate big fees, any wise company will treat their pronouncements with a suitable dollop of scepticism.

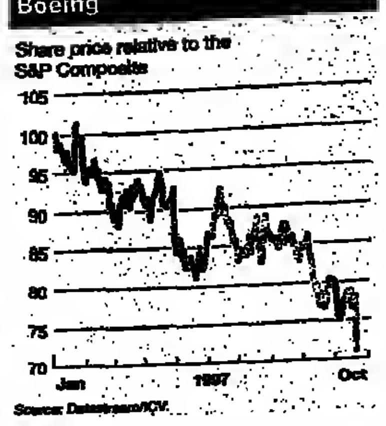
Of course, to blame the bankers is fundamentally pretty absurd. If shareholders think a company's board is too easily swayed by fee-hungry advisers, they should ask themselves whether such flaky management should not be changed. And if they think a big deal's motivation is suspect, they are anyway perfectly free to vote it down.

Suppose, though, that a company *really wanted* to test its advisers' true views. It could always offer to pay them in paper – either straight *shares*, or even better some kind of highly-geared instrument such as a warrant or an option. That way, the bankers would have a rather sharper incentive to consider a deal's effects from the shareholder's point of view.

Bankers, needless to say, are none too keen on this notion. But companies might nevertheless find it instructive to put it to them. After all, if an adviser promoting a deal recoils from the prospect of its client's paper, the transaction may not be quite as enticing as it looks.

FTSE Eurotop 300 index
975.1 (-10.2)

Boeing



Source: Datastream/ICV

Boeing

Being in a cyclical industry is no fun – first you have no work, then too much. Boeing cannot build its aeroplanes fast enough and while most companies dream of this kind of "problem", Boeing's investors have little to laugh about. The additional cash costs of ramping up production, put at $2.6bn for this year and next, will cut around a fifth off 1998 earnings and knocked 8 per cent off the shares yesterday. Following a 50 per cent increase in production in 12 months, difficulties were probably inevitable. But their scale has far exceeded expectations. That raises the question of whether top management, busily taking over McDonnell Douglas, took its eye off the ball. And given that shortages at suppliers are at the root of the problem, it may be that Boeing has gone too far in its drive to outsource production of key parts.

For the aerospace industry, *Boeing's* difficulties are a mixed blessing. The group will surely try to extract some compensation from tardy *suppliers*, though squeezing them too hard would probably be self-defeating. Airbus will doubtless use this episode to cast doubt on its rival's reliability and try to poach customers. But it is running at full production itself. *The real winners* are likely to be the airlines. While some – say, those in hard-hit south-east Asia – might secretly quite like a delay in deliveries, all will presumably try to extract either financial penalties or a better deal on future purchases.

Takeovers

How much debt should investors be prepared to live with? *Certainly* they are feeling a little queasy over GTE's $28bn bid for MCI. If GTE succeeds, it will be balancing borrowings of $54bn on a market capitalisation of around $45bn. Most utilities, despite guaranteed *income* from monopoly franchises, would hesitate to gear up that highly.

Maybe investors are *being too* timid, however. Thanks to the tax break on interest costs it is entirely rational for companies to use leverage – up to a point. In the US, with a bigger corporate bond market and the wide acceptance of credit ratings, companies are much more aggressive at managing their balance sheets to *maximise* shareholder returns. Even before this bid, GTE never aimed for more than a single-A credit rating. Nor *do* the numbers look too frightening in this case. GTE's debt would be only three times the new company's projected earnings before interest, tax, depreciation and amortisation (ebitda) of $18bn after the acquisition. That is consistent with triple-B rating which is still considered investment grade. Most cable companies, which have strong local franchises similar to GTE, have debt/ebitda ratios of five or six times.

In more cyclical industries, of course, this type of leverage is likely to end in tears. And of course investors still have to make a separate judgment on whether the acquisition makes sense. But GTE's appetite for debt should not put them off.

Additional Lex on CDC privatisation, Page 21

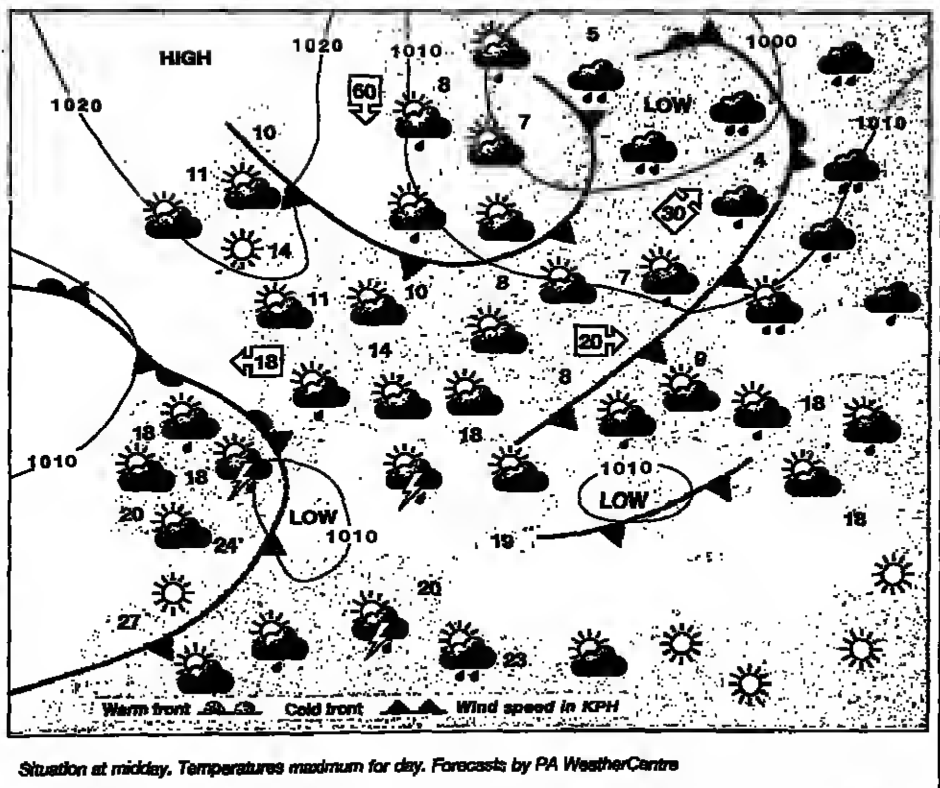
FT WEATHER GUIDE

Europe today

Most of Scandinavia will have rain followed by sunny spells and showers. Eastern Europe will be windy with bursts of rain, but central and western Europe should be dry with some sunshine after early fog has cleared. Around the Pyrenees, there will be heavy rain or thunderstorms. The Iberian peninsula will be fine, apart from showers in the north-west. Southern Italy will have more showers, with *brief spells of sunshine, but northern* Italy will have more sunshine after some early mist. Greece will have heavy showers and occasional thunderstorms.

Five-day forecast

The Mediterranean will become unsettled again with further showers or thunderstorms in central and eastern areas. It should become fine on Saturday, apart from some rain *moving into* Portugal. Much of central and western Europe will stay dry, but the east and north-east will *have more showers, with snow over* northern Scandinavia.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

Maximum Celsius																	
Abu Dhabi	Cloudy	30	Beijing	Sun	15	Cardiff	Fair	12	Frankfurt	Fair	11	Madrid	Fair	19	Rangoon	Fair	32
Accra	Fair	31	Belfast	Fair	10	Casablanca	Fair	24	Geneva	Cloudy	14	Majorca	Sun	23	Reykjavik	Cloudy	5
Algiers	Cloudy	25	Belgrade	Fair	13	Chicago	Cloudy	11	Gibraltar	Drizzle	21	Malta	Fair	25	Rio	Fair	24
Amsterdam	Cloudy	12	Berlin	Cloudy	9	Cologne	Cloudy	11	Glasgow	Fair	10	Manchester	Fair	10	Rome	Shower	18
Athens	Thunder	21	Bermuda	Fair	25	Dakar	Sun	31	Hamburg	Rain	9	Manila	Shower	32	S. Frsco	Fair	20
Atlanta	Sun	18	Bogota	Fair	20	Dallas	Shower	23	Helsinki	sleet	1	Melbourne	Fair	21	Seoul	Fair	18
B. Aires	Fair	23	Bombay	Sun	34	Delhi	Sun	26	Hong Kong	Fair	31	Mexico City	Fair	22	Singapore	Shower	33
B.ham	Fair	11	Brussels	Fair	11	Dubai	Fair	33	Honolulu	Fair	30	Miami	Sun	27	Stockholm	Fair	7
Bangkok	Fair	35	Budapest	Sun	10	Dublin	Cloudy	11	Istanbul	Cloudy	18	Milan	Cloudy	18	Strasbourg	Fair	10
Barcelona	Fair	22	C.hagen	Shower	8	Dubrovnik	Cloudy	15	Jakarta	Fair	33	Montreal	Cloudy	4	Sydney	Sun	23
			Cairo	Sun	26	Edinburgh	Cloudy	10	Jersey	Fair	13	Moscow	sleet	2	Tangier	Shower	23
			Caracas	Fair	32	Faro	Fair	22	Johannesburg	Sun	25	Munich	Cloudy	8	Tel Aviv	Cloudy	25
									Karachi	Fair	30	Nairobi	Shower	24	Tokyo	Fair	24
									Kuwait	Fair	33	Naples	Thunder	20	Toronto	Cloudy	8
									L. Angeles	Sun	22	Nassau	Fair	29	Vancouver	Cloudy	11
									Las Palmas	Fair	25	New York	Fair	10	Venice	Cloudy	15
									Lima	Cloudy	24	Nice	Shower	18	Vienna	Fair	12
									Lisbon	Drizzle	21	Nicosia	Sun	24	Warsaw	Shower	7
									London	Fair	13	Oslo	Fair	6	Washington	Sun	13
									Lux.bourg	Sun	9	Paris	Sun	12	Wellington	Fair	15
									Lyon	Cloudy	15	Perth	Fair	26	Winnipeg	Fair	3
									Madeira	Fair	25	Prague	Fair	9	Zurich	Cloudy	8

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday October 23 1997
Week 43

INSIDE

Nike strikes back in sponsor wars

Nike, the Oregon-based sportswear group which sponsors the stars of Brazil's national soccer team, including Denilson, left, announced an eight-year sponsorship deal with the US Soccer Federation worth $120m, two days after it lost out to its arch-rival Adidas of Germany in the race to sign up the New Zealand All Blacks rugby team. Page 18

Property takes a global view
The property consultancy business used to be largely a home-grown sector in the UK. But multinational corporations increasingly want a single, professional adviser to meet their property needs across the world. Page 21

Banking on the high rollers
Many Far Easterners love a flutter, but can gambling stocks help brokers looking to buck the downward trend in share prices? A report by Flemings, the investment bank, suggests the quoted gaming sector is s good bet. Page 34

Saudi Arabia to focus on natural gas
Saudi Arabia, holder of the world's largest oil reserves, is to focus its future exploration effort on natural gas in order to meet surging domestic demand. Page 24

Colombia to sell 10-year Treasuries
For the first time in Colombia's history, investors will be able to buy 10-year Treasury paper (TESs) through an auction today. Page 22

Companies in this issue

Market Statistics http://www.FT.com

CROSSWORD, Page 24

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Adidas	252.9	+	8.4
Horten	227	+	4
Ind Werke	459	+	13
SAP AG	500	+	20.2
Volkswagen	1184	+	35.5
Falls			
Goldschmidt	575	–	10
NEW YORK ($)			
Rises			
Cox Comm	32	+	2
JLK Direct	30⅝	+	2¼
USX-Delphi	19⅛	+	2⅞
Falls			
Boston Science	50¾	–	6⅛
Huaneng Pow	19	–	2½
Vencor	31	–	11¾
LONDON (Pence)			
Rises			
Biocompatible	665	+	80
Domino Print	375	+	41½
Premiere	215½	+	43
Protean	238	+	39
Falls			
Cable & Wire	490	–	27
Smithkline	582	–	26
TORONTO (C$)			
Rises			
Desjardins	23.0	+	2.25
Star Data	7.75	+	1.0
Wescast	5.75	+	1.3
Falls			
Hyal Pharm	4.05	–	0.4
Laurentian Bk	26.0	–	2.1
Samex Gold	5.75	–	0.75

PARIS (FFr)			
Rises			
Havas Advert	743	+	17
Valeo	401	+	15
Falls			
BIC	410.3	–	6.8
Bouygues	582	–	20
Canal Plus	1038	–	32
Legrand	1142	–	37
TOKYO (Yen)			
Rises			
Calsonic	666	+	38
Gunze	357	+	25
Hino Motors	499	+	39
[illegible] Oil	391	+	31
Falls			
Koito Manf	720	–	23
Sumitomo Rlty	955	–	18
HONG KONG (HK$)			
Falls			
Beijing Ent	24.0	–	2.75
Cheung Kong	88.0	–	7.75
China Res	17.3	–	5.7
New Wrld Dev	29.7	–	4.8
Shanghai Ind	23.6	–	6.6
Wharf Hldgs	18.85	–	3.35
BANGKOK (Baht)			
Rises			
Bk Fst Ins	45.75	+	4.0
Thai Iron	19.25	+	1.75
Thai Wah Fd	17.5	+	1.5
Falls			
BKK Dusit Med	22.5	–	2.5
Berli Jucker	50.0	–	5.0
Thai Rubber	15.75	–	1.75

New York and Toronto prices at 12.30pm.

Offering equal to 17.4% of company's current market value

SGS-Thomson $2bn share issue

FT reporters

Investment bankers are working on a new $2bn issue of shares in SGS-Thomson Microelectronics, the Franco-Italian semiconductor manufacturer.

An offering of this size would represent about 17.4 per cent of the $11.5bn market value of the group, based on yesterday's closing share price of FF439.9.

The company, sometimes held up as a model of European high-tech development, is currently 69.4 per cent owned by French and Italian state-controlled entities.

The offering, which has not yet been filed to financial regulators, may represent the last issue of SGS-Thomson shares for some time because the Socialist-led French government is intent on keeping a majority of the group in public hands.

The principle whereby Italian and French state-controlled entities hold an equal stake also looks certain to be adhered to.

Morgan Stanley, the US investment bank, is understood to be the global co-ordinator of the issue. The other banks involved in the deal are Salomon Brothers, Deutsche Morgan Grenfell and Lehman Brothers. The expected dominance of US houses in the issue prompted one analyst to say: "For a big global industry that wants to raise $2bn you need people with distribution in the US.

"I can't think of a French group that can offer that. This is all part of the investment banking story."

Demand for an eventual issue is expected to be particularly high in the US from investors keen to buy technology stocks.

A number of recent developments have indicated that conditions for a new issue of the company's shares were starting to fall into place.

In September, Thomson-CSF, the French defence electronics group, said it was selling its 17.2 per cent stake in SGS-Thomson to CEA Industrie, the French nuclear technology group, and France Telecom, the former monopoly operator recently part privatised in the largest ever French initial public offering.

The $1.23bn deal took the stake in SGS-Thomson held by CEA and France Telecom to 34.5 per cent.

France Telecom, in particular, is thought to have little medium- to long-term interest in keeping the two companies' holding at such a high level.

The semiconductor group is also about to be admitted to France's benchmark CAC 40 stock market index in a move that will take effect on November 12.

Such developments often trigger substantial institutional buying of the shares of the companies concerned.

SGS-Thomson is listed in Paris although it quotes figures in US dollars. In July, it reported a 48 per cent decline in first-half net income from $351.1m to $182.6m after issuing a profit warning earlier in the year.

None of the investment banks involved in the deal was prepared to comment yesterday.

Pinault gives up attempt to buy Worms

By David Owen in Paris

François Pinault, the French financier, yesterday abandoned his attempts to buy Worms & Compagnie, apparently leaving the path clear for a friendly takeover bid which the conglomerate's leading investors launched earlier this month.

The move had been widely expected because of a sharp increase in the price of shares in AGF, the French insurance group and one of the investors in Worms, after AGF became the subject of a separate FFr55bn ($9.35bn) hostile bid by Assicurazioni Generali of Italy.

AGF shares closed last night at FFr318.90, having stood at FFr238.40 when the friendly cash-and-paper offer for Worms was launched. As a result, this offer values Worms well above the FFr410 a share, or FFr30bn, offered by Mr Pinault through Artémis, a holding company.

Artémis said yesterday that the amount to be paid to those tendering their shares to the friendly offer bore no relation to the economic value of Worms. It had therefore decided to withdraw its offer. AGF's shares are also above the FFr300 a share offered for it by Generali.

In addition to AGF, which owns 7 per cent of Worms, Italy's Agnelli family is also involved in the friendly bid.

Under the proposed deal, Someal, a company owned by the Agnellis, would raise its stake in Worms from 20 per cent to 100 per cent. AGF would take a stake in Someal and acquire Athéna, Worms' insurance subsidiary, for FFr12bn in cash and shares.

Mr Pinault's thwarted takeover bid was part of an unprecedented wave of corporate activity in France in recent weeks. Many see this as a sign that aggressive Anglo Saxon-style management practices are starting to become more acceptable in the country's traditionally stuffy boardrooms.

Artémis's bid was explained by the Pinault camp as an attempt to diversify the financier's interests into areas such as financial services while ensuring a future for Worms' wide-ranging industrial interests.

Shares up in German software house on high sales

By Graham Bowley in Frankfurt

SAP, the rapidly expanding German business software group, yesterday surprised investors with stronger-than-expected sales and profits growth in the third quarter. The company said it had brought forward the planned launch of its shares on a US stock exchange to the third quarter of next year.

SAP shares rose sharply after the group announced that sales increased 82 per cent to DM1.42bn ($810m) and pre-tax profits grew 86 per cent to DM251m in the third quarter compared with a year ago.

However, analysts cautioned that the group's costs were also higher than expected.

Dietmar Hopp, one of SAP's two chief executives, said: "We expect sales growth to slow in the fourth quarter. However, for the year as a whole we expect a revenue increase of 50 per cent if currencies remain favourable."

SAP, whose popular business software has been adopted by many of the world's best-known companies, reported strong new business in the UK, US and Japan, with sales helped by the weakness of the D-Mark.

It said growth in the UK had been conspicuously strong, reflecting the robust growth of the British economy. It said it had won new high-profile clients in the UK including United Biscuits, British Aerospace and Barclays Bank.

SAP also reported important new contracts in the US, including Electronic Data Systems and MCI Telecommunications.

The company is now trying to break into the market for small to medium-sized companies, launching yesterday a new programme to attract smaller German clients.

Mr Hopp said many of German Mittelstand companies understood information technology poorly and were badly prepared for events such as the change-over to the European single currency.

SAP's shares rose DM20.20 to close at DM500.

Its figures were above expectations and prompted several analysts to raise their profits forecasts for this year and next.

SAP said it had not yet decided which stock exchange it would choose to list its shares in the US. "We are considering Nasdaq or the New York Stock Exchange," said Henning Kagermann, a board member. He said SAP did not plan a share issue to mark its listing in the US.

SAP was founded a quarter of a century ago and is now one of the world's biggest software companies. In an attempt to manage its rapid expansion, it has recently reorganised its operations by creating new development and marketing teams which focus more closely on industries rather than countries.

Mr Hopp said the insider-trading investigation which had been an embarrassment to SAP when it was launched by German prosecutors in May was continuing, but he said it had been scaled down and now only concerned a small group of suspects, none of whom were top ranking employees.

Management and workers reject rescue package

South Korea to nationalise carmaker Kia

By John Burton in Seoul

South Korea yesterday said it would nationalise the troubled Kia Motors and sell its truck division – a reversal of its decision not to rescue the nation's third largest carmaker.

The proposed state takeover was rejected by Kia's management and workers, who staged a walk-out in protest over the loss of corporate independence and the expected ousting of senior executives. Korea's largest trade union organisation also threatened an industry-wide strike.

"The government acknowledges the quick end of Kia's problems is the most urgent task to stabilise financial markets and to improve confidence in our economy," said Kang Kyong-shik, the reform-minded finance minister, who had earlier rejected state aid.

The financial problems at Kia since mid-July have caused the Seoul bourse to fall to a five-year low and the currency, the won, to reach a record low. The stock market responded to yesterday's announcement with a 6.1 per cent jump to 601.32 points.

The government also appeared to be bowing to political pressure in a presidential election year in which the leading candidates have called for a state rescue of Kia to prevent job losses among its 22,000 workers.

The state-run Korea Development Bank will take a controlling 30 per cent stake in Kia through a debt-for-equities swap, one of the first such deals in Korea, after placing the car and truck units under court receivership.

Court receivership will guarantee that creditor banks can begin recovering their loans to Kia within one year and reduce their exposure to Kia's large debts of Won10,500bn ($11.48bn).

A court decision to freeze Kia's debt payments as it sought bankruptcy protection from creditors for five years had forced cautious finance institutions to withdraw loans from other highly-leveraged companies that set off s recent string of bankruptcies.

Plans to sell Asia Motors, Kia's truck division, will also help pay debts. Daewoo has expressed interest in it.

Mr Kang said it would be up to the next government, which will be elected in December, to decide whether Kia would remain a state-run company or be sold to another Korean carmaker. Samsung is believed to be interested in buying Kia.

A Kia worker guards s gate at the group's Seoul plant yesterday after a walk-out over the planned state takeover Reuters

But the likelihood of Kim Dae-jung, leader of centre-left opposition, becoming president will increase chances of Kia remaining state-run. Mr Kim has opposed the expansion of giant conglomerates such as Samsung. Analysts said a Kia state takeover would contribute to a "creeping nationalisation" of troubled enterprises after the government's 49 per cent stake acquisition in Korea First Bank to rescue it from mounting bad debts.

Editorial comment, Page 15

Barclays plan for new momentum after BZW sale

By Tracy Corrigan and William Lewis in New York

Barclays Bank plans to build proprietary debt trading and high yield debt business in an effort to regain momentum following the decision earlier this month to sell the advisory and equity businesses of BZW, its investment bank.

Barclays Capital, the ongoing investment banking business, aims to develop its integrated credit and capital markets operation to offer syndicated lending and bond underwriting across a range of international markets.

Mr Bob Diamond, the new chief executive of Barclays Capital, said the change of direction would "give us an opportunity to become extremely focused on the integration of the credit product".

Barclays Bank, which is expected to invest £25m-50m annually in developing Barclays Capital over the next two to three years is pursuing a strategy which runs counter to that being followed by big European rivals such as Deutsche Bank. These are spending heavily on investment banking in an effort to compete globally with the big US investment banks.

Some analysts are sceptical about the viability of a credit markets business outside the context of an integrated full-service investment bank. One London-based analyst yesterday said: "It's a highly commoditised business and Barclays is still lined up competing with global investment banks. I've heard no convincing explanation of why Barclays should have a competitive advantage in the debt markets, particularly in view of the fact that these have been underperforming businesses."

Mr Diamond said the company was taking a big bet that a large liquid European credit market would develop rapidly following European monetary union. "The single currency means the beginning of an incredible period for corporate finance in Europe," he said. In the new European credit market, the focus would be on credit rather than currency risk. Mr Diamond believes that Barclays Capital will play a "significant and important part" in the development of the nascent European high yield market.

In order to build up its business in the mature US high-yield market, Mr Diamond is seeking to develop a "relatively strong standing" in industries that are active in high yield financing, such as telecommunications. He also wants to raise Barclays Capital's profile in the US market for high-yield foreign bonds.

The shift towards proprietary trading, or trading on the bank's own account, is designed to "take advantage of two of our great attributes - capital and information".

Mr Diamond said the firm would not focus on the large domestic US investment grade market, neither were there plans to increase its 60-strong US sales staff.

US investment bank Donaldson, Lufkin & Jenrette is among those believed to be interested in purchasing the businesses up for sale.

COMPANIES AND FINANCE: THE AMERICAS

Brazil's Varig joins Star airline alliance

By Arkady Ostrovsky in Rio de Janeiro

Star Alliance, the world's most powerful airline grouping, moved into Latin America yesterday when it formally welcomed Varig, Brazil's main airline, as s full member.

The alliance – which is led by United Airlines of the US and Lufthansa of Germany and includes Air Canada, Thai Airways and Scandinavian Airlines System – will now gain access to all the Latin American cities served by Varig.

"Varig is Latin America's oldest and best known airline, and flies to every major destination in South America. Today we're delivering a continent to our customers," the group said in a joint statement. Star Alliance is also understood to be in talks with Cathay Pacific Airways and Singapore Airlines to increase the group's share of the Asia-Pacific market.

Alliances like Star offer passengers joint benefits and issue tickets with the same shared code, allowing them to buy tickets on flights operated by other carriers in the gronp. Airlines are also able to check passengers and their baggage all the way through regardless of the number of changes on route to the final destination.

The Star partners also offer a joint mileage programme which enables passengers to accumulate and redeem mileage points on each of the alliance flights. Passengers are able to use 185 lounges around the world controlled by different members of the group.

Jan Stenberg, president of SAS, says the allied airlines will also improve co-ordination of traffic, making interconnections between flights more convenient. Jürgen Weber, Lufthansa chairman , said the alliance would improve transparency, giving passengers more information about which carrier they would be flying with.

Members of the alliance, which last year had revenue of $45.7bn and 230,000 employees, say the partnership also delivers financial benefits to companies by reducing overheads and increasing their purchasing power.

Mr Weber said Lufthansa made DM300m ($176m) from partnership operations last year and estimated the profits would reach DM400m next year.

He said the partners were planning a "landlord" programme, which means, for example, that all ground services for alliance members in Germany would be provided by Lufthansa, while Varig would have a similar responsibility in Brazil.

Last year British Airways and Amsrican Airlines announced plans for a similar link-np but their proposed deal has run into strong opposition from the European Commission.

Star has also been a subject of a Commission investigation, but Mr Weber is confident of no regulatory problems. "You cannot compare apples and pears. Unlike BA and American, we do not have a monopoly on any of our routes. We have 11 competitors on our US route and our market share is less than 30 per cent."

Nike sponsors US soccer for $120m

By Patrick Harverson

Nike, the Oregon-based sportswear group, yesterday announced an eight-year sponsorship deal with the US Soccer Federation worth $120m.

The contract cams two days after Nike lost out to its arch-rival, Adidas of Germany, in the race to sign up the New Zealand All Blacks rugby team.

On that occasion, Adidas topped Nike's offer to ths New Zealand Rugby Football Union with a bid worth more than $45m over five years.

Bnt yssterday the US group got its revenge as it clinched the US soccer deal, despite a last-minnte challenge from Adidas.

Competition among global sportswear brands bas always been strong, but it has intensified noticeably in the past year as the biggest brands – among them Nike, Adidas, Reebok of ths US and Umbro of the UK – have spent increasingly large sums signing up prominent international teams and national clubs.

The sportswear companies are willing to spend heavily because they believe the wearing of their logos by the world's top sports stars is a highly effective way of marketing their shoes and clothing to brand-conscious consumers.

This explains why Nike has chosen to sign a new deal with the USSF that is worth abont 10 times as much as the company's current contract with the federation, which dates back to 1994.

Nike is gambling that soccer – which lags some way behind American football, basketball and baseball in popularity among US sports fans – will take off in the country.

The sponsorship deals are not only getting bigger; they are becoming more complex.

Jim Trecker, spokesman for the USSF, said the deal with Nike bad "many components. It's more than a money deal. It's much more of a partnership between the two."

The new contract is likely to be similar to the record-breaking $200m, 10-year deal that Nike struck with tha Brazilian football federation last year.

Under the terms of that contract, Nike is allowed to arrange five friendly internationals for the national team each year.

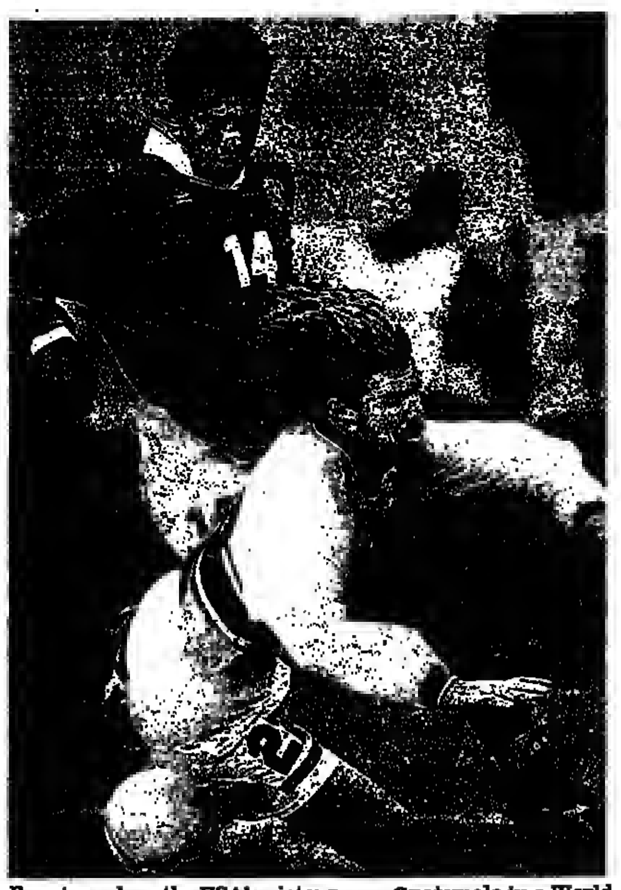
In return, Brazilian football receives a sum of money up front, a royalty on the sale of all Brazil shirts, support for improvements to ths game's infrastructure in the country, and backing for youth training.

The sports brand war shows no signs of abating. Several other prominent sporting contracts are due for renewal soon, among them ths right to sponsor the England football team.

The English Football Association's deal with Umbro, the UK football-only sportswear company which has struggled to match the spending power of its bigger rivals, runs out in 1999 and the FA has already begun negotiating a new contract.

Among the bidders have been Nike, Admiral (a brand which is owned by the quoted UK company Hay & Robertson Adidas) and Reebok.

The same companies have also been fighting each other to sponsor top rugby teams. Adidas has the All Blacks, Nike recently added England to its roster, while Reebok has Australia and Wales.



Events such as the USA's victory over Guatemala in a World Cup qualifier last year can only help the game in the US AP

Aetna's China venture cleared

By John Authers in New York and James Harding in Shanghai

Aetna, the US life and bealth insurer, yesterday announced that it had been granted approval by the People's Bank of China to operate a joint venture insurance business in Shanghai. It is only the second US insurer to gain such a licence.

Only two Sino-foreign joint ventures and one wholly-owned foreign subsidiary operate in the Chinese lifs market, and they are restricted to Shangbai. China is an attractive market for life assurers, given its huge population and high savings rate, but international insurance companies have found liberalisation slow.

Aetna, which will operate witb China Pacific Insurance, China's second largest insurer, had been seeking clearance to offer insurance in the market since 1992.

Richard Hnber, chief executive, stressed the investment was for the long-term, and tbat Aetna did not expect to realise a profit for abont a decade. He said: "The rule of thumb is that insurance premiums tend to stabilise at abont 4 per cent of GDP in tbe developed world. In China that figure is less than 1 per cent, so the potential for growth is really geometric."

Aetna will design products for the venture and set up a new sales force, using executives wbo have previously run its operations in Taiwan, where the company has a staff of 6,000 career sales agents.

Initially the company will be restricted to Shanghai and offer basic life policies, altbough it intends to expand into broader investment and retirement products.

Aetna announced a joint venture with a Brazilian insurer earlier this year, and Mr Huber said Aetna expected Latin American markets to grow faster than China in the near term. "Our strategy is to focus on mid-level emerging markets and leave the developed markets of western Europe for the big European insurers. Mid-level countries like Brazil and Mexico will be engines for growth five years from now, and then China and India will be engines for growth 10-15 years from now."

American International Group was the first to enter the China market, establishing AIA, its wholly-owned subsidiary, in Shanghai in 1992. AIA bas since been given the right also to conduct business in Guangzhou.

Last month, China gave public approval to Allianz, tbe German insurance group, to proceed with a life assurance joint venture with Dazhong, the company based in Shanghai. Annual premium income in Shanghai is expected to exceed Yn5bn ($605m) according to official government figures.

US sees mass production of 'clean' cars

By John Griffiths

The US Department of Energy and an industry research group are claiming a research breakthrougb which, they say, will allow volume production of cars powered by virtually emissions-free fuel cells – but still using petrol as the fuel source – within the next 5-10 years.

Simple portable power packs using the technology, such as mobile generators, would be on the market before the end of the decade, the group said.

If the technology works as well as ths researcb is claimed to indicate, the project – led by consultants Arthur D. Little (ADL) – would overcome the biggest single obstacle preventing the environmentally "clean" fuel cell solving many of the world's car exhaust emissions problems.

A apokeawoman for USCAR – a research consortium linking Chrysler, Ford and General Motors – said yesterday that the technology opened up the prospect of volume production of the "clean" family cars, using conventional petrol stations for refuelling, by the year 2010.

"There are still some technical downsides needing a lot of development work; nevertheless, this looks like a major step forward," USCAR said.

Fuel cells generate electrical propulsion power hy chemically combining hydrogen and air, producing mainly water vapour and heat as an "exhaust".

The supply and storage of the hydrogen needed for this process, however, has been the biggest stumbling block to the commercial introduction of fuel-cell powered cars.

The prototype fuel cell, unveiled this week, would allow industry to save "billions" by allowing cars to use the existing petrol supply infrastructure for refuelling, a spokesman for the project said.

The technology was demonstrated at the energy department's Los Alamos National Laboratory last wesk, being tast-run on ethanol, metbanol and natural gas as well as petrol.

Chrysler displayed a car fitted with the basic elements of the project's fuel cell at the Detroit motor show earlier this year, but withont the petrol fuelling elements.

The antomotive and related industries worldwide are in a race to produce commercially-viabls fuel cells – not least as a means of meeting severely restrictive exhaust emissions legislation by California and, potentially, other US states. Battery-powered cars to date have proved disappointing in terms of cost, range and performance.

Chrysler estimstes tbe cost of the new fuel cell, in volume production, as likely to be around $30 a kilowatt - similar to a conventional petrol engine.

ADL and the snergy department said that more prototypes would be produced for testing by car-makers.

Strong third-quarter recovery at PepsiCo

By Richard Tomkins in New York

PepsiCo, the US snacks and soft drinks company that has suffered a string of troubles over the last year, yesterday reported a strong recovery in third-quarter net profits from $144m to $658m.

In last year's third quarter, PepsiCo's soft drinks division suffered a profits slump, mainly resulting from its unsnccessful attempts to vanquish Coca-Cola outside the US. It took an after-tax charge of $378m to restructure the business.

Since then, PepsiCo has also suffered weakness in its Pizza Hut, Taco Bell and KFC fast-food business because of competitive conditions in the US. Now named Tricon, the business was spun off to shareholders two weeks ago.

Yesterday, PepsiCo said net income from continuing operations, exclnding the restaurant division and the prior year's $376m charge, rose from $10m, or 1 cent a share, to $551m, or 35 cents a share in the third quarter. The market forecast was 32 cents a share.

PepsiCo said volumes in its international soft drinks business increased by 4 per cent, the first increase in s year, and were now back to their year-earlier levels after the intervening declines. The business recovered from last year's losses to record operating profits of $75m.

PepsiCo said it had changed its bottling arrangements in several smaller markets. Volume had been strong in emerging markets such as China, and the company had also seen steady progress in "critical mass" markets in Europe and Asia.

Domestic operating profits from soft drinks fell from $435m to $425m amid tough price competition. But tbanks to tbe recovery on the international side, the soft drinks division reported an overall 40 per cent increase in operating profits to $500m.

The snack foods business saw strong gains in North America and overseas, growing operating profits 16 per cent to $468m. North American profits rose 14 per cent to $378m and international profits 25 per cent to $90m.

Charges drag DuPont to net loss of $17m

By Tracy Corrigan in New York

DuPont, the US-based chemicals company, yesterday reported third-quarter net earnings before charges of 86 cents a share, 1 cent below analysts' estimates, according to First Call.

After non-recurring charges of $998m, or 86 cents a share, tbe company showed a net loss of $17m for the third quarter or 2 cents a share. The charges were mainly due to a previously announced write-off relating to a biotechnology acquisition. Jeff Cianci, chemicals analyst at Bear Stearns, said the write-off was wbolly expected and represented a favourable tax treatment for a biotechnology acquisition.

"In the third quarter, our underlying business continued to perform at record levels, driven by strong volume growth from our chemicals and specialties businesses, and record earnings from petroleum," said John Krol, DuPont's president and chief executive officer.

DnPont recently announced its purchase of ICI's pigments and polyester businesses and the sale of its hydrogen peroxide business.

DuPont's sales for the quarter totalled $11.1bn, up from $10.5bn. Petroleum sales by the Conoco unit rose 8 per cent to $5.3bn, despite lower crude oil prices, and analysts said they are expecting a strong performance from this business in the fourth quarter.

Mr Cianci said that the company's earnings showed it was on track to produce double-digit growth.

Chemicals segment earnings rose 12 per cent to $154m, reflecting higher earniogs from white pigments and speciality chemicals.

Fibres segment earnings of $238m were up 16 per cent, reflecting increased earnings for Dacron polyester, Lycra brand spandex and aramids, but partly offset by lower nylon earnings. Polymers segment earnings were $228m, up 7 per cent.

AMERICAS NEWS DIGEST

P&G quarterly profits top $1bn

Procter & Gamble, the US household products group, yesterday saw quarterly profits pass the $1bn mark for the first time as it reported an 11 per cent increase in net earnings to $1.09bn for the period to September. Earnings per share rose by 13 per cent to 79 cents, in line with analysts' forecasts.

The groupo, which is already the world's biggest manufacturer of soap powder, shampoo and diapers, has set itself a target of doubling revenues in the next 10 years, implying a 7 per cent increase a year. In the latest quarter, revenues fell short of that target, rising by 5 per cent to $9.36bn.

The company said the volume of products sold rose by 8 per cent worldwide, bnt revenues were hit by the strong dollar – a factor that has hit recent results from other US consumer product companies, such as Coca-Cola and Philip Morris. But John Pepper, chairman and chief executive, said: "Our unit volume growth is now reaching the rate of growth we'll need to double every decade."

Richard Tomkins, New York

■ CANADA

Laurentian Bank stake sold

Desjardins-Laurentian Financial, the Canadian holding company, has sold its 57.5 per cent stake in Laurentian Bank of Canada, the nations's seventh largest, through a secondary offering worth C$254m (US$195m).

The company had been trying to sell its stake to a single shareholder since June, but was unable to reach a deal and opted to sell its shares through the market at a 10 per cent discount. A syndicate of underwriters sold the Laurentian shares to pension and mutual funds as well as individual investors. The closing price was about C$10m, or 4 per cent, less than the bank's book value.

Robert Bass, the Texas billionaire, and Industrial Alliance, the Canadian insurance concern, were believed to have been the two remaining bidders for the bank.

The company said that following the sale, which is expected to close on November 12, no single shareholder will own more than 10 per cent, enabling the bank to become a Schedule I institution under the Bank Act. Schedule I banks, a classification comprising the country's big six financial institutions, have more flexibility to issue shares.

Laurentian Bank, founded in 1846, has assets of over C$12bn and more than 240 branches serving a predominantly Quebec clientele. The bank, which reported earnings of C$14m on revenues of C$200m in the second quarter, said it had recently developed a business plan that will allow it to expand and refine its distribution of products and financial services. *Scott Morrison, Vancouver*

■ AUTOMOTIVE EQUIPMENT

Federal-Mogul back in black

Federal-Mogul, the Michigan-based automotive equipment supplier which recently announced a $2.4bn recommended cash bid for Britain's T&N, yesterday said that it made an after-tax profit of $17.4m in the third quarter, compared with a $12.6m loss a year earlier. Sales for the company, which has been undergoing a significant restructuring, were $424m compared with $492m previously.

Federal-Mogul said that it was still discussing the disposal of retail operations in Puerto Rico and Venezuela, and total aftermarket operations in Chile and Ecuador. But it said that the restructuring plan was on schedule.

During the quarter, the North American original equipment business posted s 14 per cent sales increase, while the international business saw an underlying increase of 13 per cent, although disposals and currency changes pushed the reported sales figure down from $52m to $37m.

The third quarter result leaves Federal-Mogul with a profit of $59.8m for the first nine months, compared with a $14.5m loss at the same stage last year.

Nikki Tait, Chicago

■ MINERALS

Cyprus Amax warns on transport

Cyprus Amax, the large Denver-based copper and coal producer, warned yesterday that the operational difficulties being faced by the Union Pacific railroad network were affecting its ability to ship coal and impacting on financial results.

However, the cautionary note came as the company announced third-quarter profits of $44m after tax for the three months to end-September, up from $14m a year ago. It said that, despite the railroad problems, earnings from the coal business increased to $26m in the quarter, compared with $3m a year earlier, with productivity improving sharply. The copper/molybdenum interests made a profit of $79m, compared with $48m previously, with copper production rising by 32 per cent, as new output from El Abra copper mine in Chile came on stream. Amax Gold saw also saw production increase to 218,000 ounces.

The result takes profits for the nine-months to $167m, compared with $129m at the same stage a year earlier.

Nikki Tait

■ OIL INDUSTRY

Higher margins lift Imperial Oil

Imperial Oil, Canada's largest producer, said its third-quarter earnings more than doubled to C$201m (US$155m), from C$99m during the same period last year. The results surpassed analysts' expectations. Revenues during the quarter improved slightly to C$2.68bn from C$2.63bn.

Imperial, which is 70 per cent owned by Exxon, of the US, attributed the increase to stronger margins in refined products and chemicals, as well as higher production at its Cold Lake heavy oil facility. The integrated oil company's heavy oil output averaged 126,000 barrels a day during the quarter, compared with 79,000 b/d last year.

Earnings from oil and natural gas production rose from C$59m in the third quarter last year to C$98m this year, while profits from refined products jumped to C$94m, against C$26m last year.

Earnings for the first nine months of the year were C$575m on revenues of C$7.97bn. *Scott Morrison*

AlliedSignal advance disappoints market

By Nikki Tait in Chicago

Shares in AlliedSignal fell sharply in early trading yesterday after the New Jersey-based engineering group reported third-quarter earnings below analysts' expectations.

After-tax profits for the three months to the end of September were $292m – a 15 per cent improvement on the same period a year ago, when the company made $253m, and equivalent to earnings per ebare of 52 cents, compared with 45 cents previously.

The average expectation among analysts, according to tbe First Call research service, was 53 cents a share. Although the shortfall was slight, it came as a surprise and the shares fell $4 1/16 to $39 1/16.

AlliedSignal also said it would be taking "aggressive actions" in the fourth quarter to cut costs in its automotive aftermarket (spare parts) products units, following a poor third-quarter performance.

The move will be reflected in a fourth-quarter charge, partly offset by a gain from tbe recently-sold safety restraints business. AlliedSignal said the latest initiative, coupled with a previously-announced reorganisation of its sector offices, sbould produce annualised cost savings of about $70m.

In the third quarter, total sales increased 9 per cent, to $3.7bn. Excluding the effect of foreign exchange movements, the sharpest growth came on tbs aerospace side, up 15 per cent, compared with only 8 per cent in automotive and 4 per cent in engineered materials.

AlliedSignal said that profits from the aerospace side also rose strongly, to $138m after tax, compared with $98m previously. But on the automotive side, profits slipped back from $40m to $34m.

Lawrence Bossidy, chief executive, said that earnings growth for the full year should be "at about the mid-point of our 13-17 per cent target". Ths third-quarter result brought after-tax profits for the first nine months to $856m, compared with $750m a year earlier.

● United Technologies, the Connecticut-based engineering group which owns the Pratt & Whitney aero engines business, yesterday announced an after-tax profit of $300m in the third quarter, up 18 per cent compared with the same period a year earlier. Sales were 1 per cent higher, at $6bn. Earnings per share increased from 97 cents to $1.16.

UTC said that all five operating divisions had reported better margins, although the automotive unit's profit was flat during the quarter and there were small profit declines at the Otis and Carrier businesses. Pratt & Whitney, however, posted a 27 per cent profit improvement.

UTC shares gained $⅞ to $80 in early trading.

Lend Lease, National Mutual may link

By Elizabeth Robinson in Sydney

Shares in Lend Lease, the Australian financial services group, rose 8.8 per cent yesterday after it said it was in talks to merge its MLC Australian and New Zealand fund management and insurance businesaes with National Mutual, the demutualised life assurer controlled hy Axa-UAP, of France.

The groups said a successful merger would "combine the skills and bnsiness strengths of MLC and Netional Mutual to create in Australia e strong competitor to the major banks and financial services organisations".

Tha merged unit wnuld rival AMP, the largest fund manager with more than A$50bn (US$36.3bn) under management in Australia and New Zealand, according to Intech Asset Consulting.

National Mutual manages more than A$20bn, while MLC hes A$20.6bn under management and a further A$4.4bn in its life operations.

The companies would not reveal how they proposed to merge the units, but observers said the combined group could have e market capitalisation of A$12bn. Axa, which owns 51 per cent of National Mutual, is expected to retain a substantial stake in the merged company.

Lend Lease shares closed A$2.72 higher at A$33.32, while National Mutual rose 2 cents to A$2.41.

Standard and Poor's, the credit-rating agency, placed Lend Lease's AA corporate rating on CreditWatch with negative implications, saying the proposed merger raised uncertainties over ownership and regulation.

The fund management arm is Lend Lease's largest division. S&P said: "If successful, the merger will create Australasie's largest fund management and life insurance group in terms of premium income."

The two groups said the units were complementary and the merger plans were in line with the recommendations made this year by the Wallis inquiry into financial services.

The reforms adopted as e result of the Wallis report allow non-banks to enter bank territory, while forbidding mergers between the big four national banks. The groups said they would not release further details of their plans until tbey had conducted due diligence.

Earlier this week, National Mutual said it was guaranteed an opportunity to operete in China after being granted an option to buy into the licence awarded to Axa.

Currency hang-ups for telecoms offers

Stock market turmoil means delays for issues slated for this year

The debuts this week of two of the biggest telecommunications offerings in Asia are likely to be the last in the region this year, bankers say.

Issues from the Philippines, Malaysia, Indonesia and South Korea are expected to be postponed because of the region's stock market and currency turmoil – potentially delaying network expansion and accelerating rationalisation.

"It's not just initial public offerings, but a fundamental rethink reverberating right through tha antire Asian telecoms market," says Will Wylie, chairman of the Asian Infrastructure Fund.

The two that were leunched this month – China Telecom and Telstra, of Australia – are seen as special cases in the current volatile environment.

China Telecom – the commercial arm of China's Ministry of Posts and Telecommunications, which makes its debnt in Hong Kong today and opened in the US yesterday – marks foreign investors' first opportunity to buy into China's telecoms sector.

The offering was nnveiled in the summer, at the height of Hong Kong's so-called "red-chip frenzy", when share prices of mainland-backed companies were doubling and trebling.

But the flotation, while successful on most measures – the domestic portion of the US$4bn offering, Hong Kong's biggest, was 30 times subscribed – disappointed the market, and yesterday the shares were treding below the issue price in the grey market.

Telstra elso ettracted strong domestic demand. "The price was favourable," says Mr Wylie. "It was all very similar to Margaret Thatcher's [former UK prime minister] privatisation push with British Gas."

But for those waiting in the queue, the outlook is bleak. "I believe thet the IPO window, except for China Telecom, is effectively closed for the momeot," he says.

"Any issue would have to be structured and priced so conservetively thet companies would say 'let's explore all other avenues for achieving network build out targets rather than go to the market in a bearish mood'."

Craig Racine, regional telecoms analyst et Peregrine Brokerage, believes none of the Asian telecoms IPOs slated for this year will make it to market, with the possible exception of MTNL of India.

Instead, he sees a trend for existing shareholders to inject more capital, either as equity or loans. Smart of the Philippines, a much-delayed (and scaled-back) IPO is a case in point: shareholders have indicated their willingness to commit further funding when the need arises.

The need for capital is the crux of the issue. Telecoms deregulation in Asia is still in its infancy, but in some countries, particularly the Philippines, the pace has been swift and the number of operators has swollen substantially over the past three years.

While governments have opted for different concessions, mandatory expansion targets are not uncommon. Without the necessary funding, operators may be obliged to go back to the regulators and request an extension.

Analysts believe that such requests will be granted, given the current climate – and because owners of the concessions are generally well connected.

A second concern is that weakened ecooomies and devalued currencles will hurt consumer demand for telecoms services.

AIF, with large investments in the Philippines, as well as Indonesie, India, Chine, Pekistan and Sri Lanka, believes underiying demand remains strong.

"Real companies producing real goods and real services have been remarkably unaffected by the currency turmoil," says Mr Wylie.

He predicts the aetback could also accelerate consolidation, which will see weak and under-capitalised companies absorbed by the bigger operators.

"We've been talking about rationalisation in Maleysia's cellular sector for two years, and have heard that parties ere now talking to each other. This may be the impetus for that to take place," says Mr Racine, at Peregrine.

For investors, the temporary dearth of Asian telecoms issues will matter less given the wealth of telecoms paper coming out of Europe.

"Institutional funds have plenty of telecoms issues to choose from. A global telecoms fund has no need to invest in Asia if the value is not there," says Mr Racine.

Louise Lucas

Future fund raisings

1997 - first half 1998

Company	Country	Likely size $m	Likely timing	Form
Smart	Philippines	200	Q4 1997	IPO
TT&T/TOT	Thailand	150	Q4 1997	Placing
TAC	Thailand	70	Q4 1997	Placing
Binariang	Malaysia	400	Q1 1998	IPO
Time Telekom	Malaysia	200	Q1 1998	IPO
Telstra	Australia	10,000	Q4 1997	IPO
MTNL	India	750	Q4 1997	Placing
AT&T - Birla	India	200	Q2 1998	IPO
Mutiara	Malaysia	200	Q2 1998	IPO
Hutchison Max	India	200	Q2 1998	IPO
Bharti Telecom	India	125	Q1 1998	IPO
PT Telkom	Indonesia	1,000	Q1 1998	Placing
Sterling Cellular	India	200	Q2 1998	IPO
Optus	Australia	400	Q1 1998	IPO
Singapore Telecom	Singapore	500	Q1 1998	Placing
PLDT	Philippines	350	Q1 1998	CB
Piltel	Philippines	200	Q1 1998	Placing
Extelcom	Philippines	200	Q1 1998	IPO
Philcom	Philippines	100	Q1 1998	IPO

Source: SBC Warburg; Dillon Read

ASIA-PACIFIC NEWS DIGEST

Kao cuts full-year forecast to Y20bn

Kao, the Japanese toiletries and household prodncts manufacturer, may post an extraordinary loss for the current financial year due to restructuring at Kao Info-Systems, its US information technology subsidiary. Kao revised downwards its full-year forecast from Y29.5bn to Y20bn ($166m) of unconsolideted post-tax profit, while raising the forecast for recurring pre-tax profits 5 per cent to Y63bn.

Half-year figures showed that poor performance at Kao Info-Systems contributed to a 10.9 per cent fall in net profit to Y12.5bn in the six months to September 30. Sales slipped 1.1 per cent to Y336.7bn, while pre-tax profit grew 13.8 per cent to Y31.6bn. The interim dividend increased Y0.5 to Y7.5, as expected.

In the domestic market, sales were affected by the increase in consumption tax. Household product sales were worst hit, declining 3.2 per cent, but sales of personal care products and cosmetics held up well, showing an increase of 0.4 per cent. Sales of chemical products grew 12.5 per cent to Y50.9bn. *Bethan Hutton, Tokyo*

■ THAILAND

Krung Thai seeks Bt5bn

Krung Thai Bank, Thailand'a second largest commercial bank, is to boost its capital Bt5bn ($130m) by offering 500m new shares to existing shareholders. The Thai government, which owns 60 per cent of the bank, is the buyer of the last resort for the shares, which will be sold at about half the price of yesterday's close of Bt19.75.

Krung Thai is the eighth Thai bank to announce a capital increase this year. So far only one, the tiny Lam Thong Bank which sold 40 per cent to foreign investors, has been successful in raising additional capital.

Krung Thai said the additional capital was needed to increase provisioning and to belp shore up its capital base.

in spite of e rise in non-performing loans, estimated to be around 11.5 per cent of total loans, the bank lowered its third-quarter provisioning by 95 per cent quarter-on-quarter to Bt1.5bn. The capital increase is only the first of several Krung Thai will need because, according to brokers Merrill Lynch, its capital-to-risk assets ratio is stretched at 6.5 per cent. *Ted Bardacke, Bangkok*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

Telco falls 46% after six months

By Krishna Guha in Bombay

Pre-tax profits at Telco, India's biggest producer of trucks and vans, fell 46 per cent in the first half in the fece of collapsing demand for commercial vehicles.

The results give clear evidence of the depressed state of India's vehicle sector, e bellwether for the industrial economy.

In the six months to September 30, sales fell 18 per cent to Rs38.5bn ($1.06bn). Pre-tax profits fell Rs2.2bn to Rs2.5bn. The company sold 83,363 vehicles in the first half, against 99,261 – a drop of 16 per cent.

Domestic unit sales fell further, down 17 per cent to 77,094 vehicles. But Telco has stepped up exports by 5.5 per cent to 6,269 vehicles in spite of the strength of the rupee.

Ratan Tata, chairman, said performance "reflects the impact of the slowdown in economic ectivity which has now continued for over nine months".

A big reduction in Telco'a tax provision following cuts in corporation tax cushioned the drop in net profit, down 35 per cent at Rs2.1bn.

Source: Datastream/ICV

Trucks, Telco's traditional core businesa, suffered a heavy decline. But this was alleviated by e 40 per cent rise in sales of tha Tata Sumo, its new four-wheal-drive off-road vehicle.

Telco cut overall production 12 per cent, taking it below the 100,000 vehicle mark, to 91,155 vehicles.

Analysts said that Telco's woes were "unknown".

"The key is volumes," said Sangeeta Nehta-Fernandes, an analyst at Kotak Securities. "If this continues, the impact on margins – which fell 180 basis points in the first half – will be severe."

Aneka Tambang to set IPO price

By Sander Thoenes in Jakarta

Aneka Tambang, the state-owned nickel and gold mining company, will today announce its share offering price in the first Indonesian privetisation this year.

The initial public offering will be for 430.8m shares, or 35 per cent of its equity, in early November. The company hopes to list the shares later that month on the Jakarta and Surabaya stock exchanges. Analysts have said the prospective price range could be hetween Rp1,700 and Rp2,000.

The sale is going ahead despite e 32 per cent drop in the Jakarta Stock Exchange index, from 742.9 in the summer to 505.2 yesterday, precipitated by a rise in interest rates and a drop in the rupiah. The government is eager to boost its fledgling capital market and encourage local listings for mining ventures, most of which are now listed in Canada.

Many Indonesian companies are struggling to pay off short-term hard currency debt, much of it unhedged, but a government injection of capital, in exchange for equity, helped Aneka Tambang reduce its ahort-term debt to Rp125.1bn ($35m) by June 30. Its commodities are sold in dollars so the currency depreciation should have only a limited impact.

Recent discoveries hava boosted the company'a proven and probable nickel reserves to 58.2m tons. Nickel production rose 36.6 per cent to 3.43m tons in 1996. Gold production rose to 1,855.3kg. But low nickel and gold prices drove profits down to Rp169.6bn for the first half of 1997, from Rp181.8bn previously.

In its prospectus, the company pledges to boost gold exploration and improve nickel processing.

Sharp rises at Vereinsbank, Hypo-Bank

By Andrew Fisher in Munich

The two Bavarian banks which are merging to form Germany's second-biggest bank yesterday announced sharp rises in profits for the first nine months as they began a series of roadshows in connection with a capital increase.

The combined improvement in operating profits, after risk provisions, for Bayerische Vereinsbank and Bayerische Hypotheken- und Wechsel-Bank – expressed as a pro forma financial statement ahead of the merger – was 26 per cent to DM2.3bn ($1.29bn).

The impact of buoyant capital markets on commission income and trading profits, and relatively weak earnings in last year's comparative period, were mainly responsible for the increase. Both banks expect profits for the full year to rise some 15 per cent.

Vereinsbank reported a 26 per cent rise in operating profits to DM1.3bn, which Albrecht Schmidt, the chairman, said was above expectations. Hypo-Bank's results were up 24 per cent to DM1bn.

Mr Schmidt, who will be chairman of the new bank – to be called Bayerische Hypo- und Wechsel-Bank – said it would have a private customer base of 3.7m, with deposits of around DM263bn, giving it a market share in Germany of 4.3 per cent.

With some DM180bn of assets under management – excluding Foreign & Colonial, the UK fund company controlled by Hypo-Bank – it will be Germany's third largest asset manager with a market share of nearly 10 per cent.

The combined bank's lending volume is about DM600bn, of which DM410bn is in low-risk mortgage finance. It will be Europe's largest property financing bank.

Vereinsbank owns 45 per cent of Hypo-Bank after a share exchange offer, and is raising capital by DM3bn through a rights issue and global offering to strengthen its balance sheet ahead of the merger.

Mr Schmidt said Hypo- und Vereinsbank aimed to obtain 30 per cent of its income from commission business which did not tie up capital. At present, the figure for the two banks is about 22 per cent.

The pro forma statement showed the largest share of profits came from net interest income, up 5 per cent to DM7.1bn. Net commission income from securities and other fee-based activities was DM2.2bn, up 41 per cent. Financial trading profits rose 58 per cent to DM507m.

The banks have already announced a joint target of 15 per cent for net return on equity; each managed less than 9 per cent last year. Wolfgang Sprissler, a Vereinsbank director, said the aim was to pass 11 per cent by the end of 2000.

Sterling bond by German bank

By Edward Luce

Hypo in Essen, one of Germany's leading banks, yesterday broke new ground with the first sterling denominated bond by a German mortgage bank.

The bond – or *Pfandbrief* – will extend one of the world's largest bond markets to UK investors.

At about $960bn, the Pfandbrief sector is the second largest bond market in Europe (after Italian government bonds, which account for $972bn in outstanding paper).

Yesterday's £150m issue, which is expected to be followed by sterling bond issues by other German mortgage banks, is the latest sign of the aggressive *internationalisation* of the Pfandbrief market.

"With European monetary union approaching, the German mortgage banks need to broaden their investor base," said HSBC Markets, which jointly lead-managed the deal with Commerzbank.

In the Pfandbrief market, borrowers provide collateral to the investor to reduce the risk of holding the paper. Unlike asset-backed bonds, where the bondholder has a legal claim over a specific portion of the borrower's assets, Pfandbriefe are issued from the borrower's general balance sheet.

The device enables the German mortgage banks to improve their credit ratings and lower their funding costs.

Hypo in Essen, Germany's sixth-largest mortgage bank, yesterday offered UK investors a relatively cheap price for the bond as an incentive to buy the paper.

At 20 basis points over seven-year UK government bonds, the spread was roughly *double that offered* recently by other AAA-rated borrowers in the sterling market.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 23.10.97 — Final Prices for Trading on 25.09.97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	16.54	14.97	15.12	0.63
0100	10.46	14.97	15.12	0.63
0130	10.62	14.97	15.12	0.63
0200	16.54	14.97	15.12	0.63
0230	16.54	14.97	15.12	0.63
0300	16.54	14.97	15.12	0.63
0330	16.64	14.97	15.12	0.63
0400	16.64	14.97	15.12	0.63
0430	16.64	14.97	15.12	0.63
0500	16.54	14.97	15.12	0.63
0530	10.45	10.34	10.34	0.00
0600	10.45	10.34	10.34	0.00
0630	10.49	10.34	10.34	0.00
0700	26.60	16.69	16.84	0.63
0730	27.53	19.07	19.22	0.63
0800	51.64	18.17	18.33	0.63
0830	51.77	25.50	25.67	0.63
0900	51.68	25.55	25.73	0.63
0930	40.90	45.87	46.06	0.63
1000	40.86	45.89	46.10	0.63
1030	40.82	45.90	46.10	0.63
1100	38.31	45.88	46.06	0.63
1130	36.31	25.62	25.82	0.63
1200	38.28	26.83	26.83	0.63
1230	38.23	25.61	25.81	0.63
1300	71.34	23.82	24.01	0.63
1330	71.28	23.73	23.95	0.63
1400	27.98	23.07	23.23	0.63
1430	27.88	23.06	23.22	0.63
1500	27.82	23.72	23.88	0.63
1530	27.93	23.72	23.88	0.63
1600	27.96	22.66	22.82	0.63
1630	28.03	26.17	26.34	0.62
1700	37.39	44.91	45.09	0.63
1730	37.41	44.90	45.06	0.63
1800	38.32	44.86	45.02	0.63
1830	58.80	25.20	25.35	0.63
1900	74.88	19.08	19.24	0.63
1930	74.09	19.19	19.39	0.63
2000	58.58	34.78	35.02	0.63
2030	37.76	34.80	35.02	0.63
2100	37.33	34.69	34.88	0.63
2130	31.82	20.61	20.77	0.63
2200	31.80	20.60	20.75	0.63
2230	31.80	16.69	16.84	0.63
2300	26.59	16.69	16.84	0.63
2330	16.37	16.69	16.84	0.63
2400	16.37	14.83	14.98	0.63

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £10.89/MWh becomes 1.089p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of recouping the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6266 between 8.30am and 5.15pm Monday to Friday.

International sales help lift PolyGram

By Alice Rawsthorn

PolyGram, the Dutch entertainment group, mustered a 21 per cent increase in third-quarter net income to Fl 85m ($42.3m), in spite of the sluggish state of the global music market.

Alain Lévy, president, said the group benefited from both strong international sales of new albums by Elton John, 911 and Boyz II Men, and the local success of acts such as Jacky Cheung in Hong Kong and Germany's Rammstein.

In the film division, box office receipts from *Bean*, *The Ultimate Disaster Movie* and *The Game* contributed to a robust increase in turnover. However, film stayed in the red because of the cost of launching PolyGram's US distribution arm.

PolyGram's shares rose immediately after the *announcement, only* to fall as the Amsterdam market softened. They closed 60 cents lower at Fl 114.90.

The group, which is 75 per cent-controlled by Philips, the Dutch electronics concern, managed an increase in net profit per share from 39 cents to 47 cents during the three months to September 30, after a 34 per cent rise in the total to Fl 2.67bn.

However, sales of about Fl 184m came from two charity tributes to Diana, Princess of Wales: Elton John's *Candle In The Wind 1997* and the *BBC Recording of the Funeral Service*. PolyGram will donate the profits from both recordings to charity.

Excluding their sales, its third-quarter revenues rose 24 per cent to Fl 2.48bn, with music contributing Fl 2.02bn, against Fl 1.72bn, and film Fl 470m, compared with Fl 277m.

Operating income rose 13 per cent from Fl 115m to Fl 130m after a 21 per cent improvement from music offset increased losses from film.

Mr Lévy said the music division was buoyed by robust sales of existing *albums from Texas, Sheryl* Crow and Hanson, as well as new releases. Sales of catalogue recordings by Elton John and the Bee Gees also rose strongly in the US.

The restructuring of the music division, which will result in the loss of 550 jobs, is almost completed, according to Mr Lévy, although PolyGram has yet to fill senior positions at its Island and Motown record labels.

Mr Lévy said he expected continued growth from music during the fourth quarter, buoyed by new releases from Bryan Adams, Hanson and Sting. He expected the film division to move into the black as *Bean* comes out in the US, and *The Borrowers*, *A Life Less Ordinary* and *Spice World* debut in the UK.

PolyGram expects titles such as A Life Less Ordinary to return its film division to profit in the fourth quarter

State tobacco groups plan link

By David White in Madrid

Seita, the French tobacco group, and Tabacalera, its state-controlled Spanish counterpart, yesterday announced plans for a strategic alliance which would enable them to join forces in international markets and acquisitions.

The two companies said they would study collaboration in marketing their cigarette brands and in bidding for other companies which were being privatised.

They also hinted at the possibility of closer links, saying they would seek to exploit "all opportunities for commercial and industrial synergies".

However, the Spanish company stressed there was no immediate plan for shareholding ties with Seita. It also said the accord was not connected with the Spanish government's plans for selling its 52 per cent stake in Tabacalera next year.

The proposed alliance marks a fresh step in foreign expansion by Seita, which was mostly privatised in 1995, and for Tabacalera.

Tabacalera emphasised that agreement had been reached only "in principle". *But it said that co-operation* was the only way the two companies, which were broadly similar in their range of products, could secure a significant position in the world market against the dominant US groups.

As well as promoting sales in areas such as eastern Europe and Asia, the two clearly want to avoid a repeat of last December's setback in the privatisation of Tabaqueira, the Portuguese tobacco company.

Both companies were bidders, but the Portuguese government opted to sell a 65 per cent stake to Philip Morris, of the US, allied with Portugal's Jorge da Mello group.

Tabacalera, with Empresa *Madeirense de Tabacos*, had entered a higher bid of Es36.5bn ($203m), against Es33.2bn offered by Philip Morris.

"Possibly if there had been a joint bid with Seita we would have had more of a chance," Tabacalera said. "We still think our bid was the best."

The Spanish company listed Romania, Bulgaria and Morocco among privatisation prospects.

Tobacco groups were excluded from taking part in the initial public offering now under way of shares in Austria Tabak, but Tabacalera said there might be a possibility of taking a shareholding in a further stage of privatisation.

Seita moved into the Polish market last year by taking control of ZPT Radom, the country's third largest producer. The Polish company has had reached an industrial and commercial agreement with Tabacalera.

Surge at car unit bolsters Volvo

By Greg McIvor in Stockholm

Volvo, the Swedish automotive group, yesterday reported a sharp improvement in underlying nine-month profits, led by a surge in *earnings in its flagship* car division.

Pre-tax profits fell from SKr12bn to SKr10.7bn ($1.39bn), on sales up from SKr113.6bn to SKr130.9bn, but the figures were distorted by a big non-core disposal last year.

Stripping out non-recur*ring items, operating profits* rose from SKr2.3bn to SKr5.8bn as the group benefitted from favourable currency shifts and buoyant sales of its S40/V40 model.

The figures were at the upper end of analysts' expectations, helping Volvo's most-traded B shares to gain SKr1 to SKr222.50.

Operating margins rose from 2 per cent to 4.4 per cent. However, Leif Johansson, chief executive, stressed this was still below the group's long-term target of 5-7 per cent.

"Work to create effective cost structures is being further intensified – productivity must increase further," Mr Johansson said. Volvo needed to gird itself for a less favourable economic and foreign exchange environment, he added.

Almost half the increase in turnover and operating profits was ascribed to currency factors, though this was partly offset by higher costs in R&D, administration and marketing.

Volvo sold 281,710 cars in the first nine months, a 7 per cent increase. Operating profits from car operations rose from SKr573m to SKr3.3bn.

The trucks division more than doubled operating profits from SKr413m to SKr990m, though losses continued in the US operation.

Autoliv hit by airbag sales dip

By Greg McIvor

Shares in Autoliv fell 3 per cent yesterday after the Swedish-US car seat belt and airbag supplier disappointed investors by announcing lower third-quarter profits.

Pre-tax profits in the three *months ended September 30* slipped from $62.4m to $61.5m as sales of airbags and seat belts posted declines. Earnings per share were unchanged at 0.34 cents.

Autoliv's shares shed SKr9.50 to close at SKr310.50 in Stockholm. Analysts were divided over the figures, with some suggesting the stock market reaction had been over-done.

One said synergies *from* Autoliv's recent merger with the car safety business of Morton International, of the US, had proved greater than expected, while earnings coincided broadly with market forecasts.

In its first forecast of cost savings from the merger, the *company predicted the tie-up* would generate annual cost synergies of $100m, with full effect from 1999.

Autoliv said the stronger US dollar had depressed revenues by 7 per cent. The company was also hit by a switch to several lower margin contracts coinciding with the car model year switch in July.

Gunnar Bark, chief executive, predicted these problems would ease in the fourth quarter, saying sales volumes would be stronger in the quarter compared with the preceding three months.

For the nine months, Autoliv's pre-tax profits rose from $223.2m to $238.5m, on sales up from $2.37bn to $2.4bn. Earnings per share climbed from $1.24 to $1.35.

Third-quarter airbag sales were dented by the stronger dollar, further price declines and supplier problems linked to a large number of new car model production start-ups.

Sales declined by 1 per cent to $516m, but grew by 5 per cent excluding currencies.

Autoliv's seat belt sales decreased by 4 per cent to $201m. However, they increased 9 per cent excluding currencies.

VW to challenge Mercedes' lead

By Haig Simonian in Tokyo

Volkswagen, Germany's leading carmaker, expects to put at least one of its two luxury models it is developing into production by 2000 in its campaign to challenge Mercedes-Benz for dominance of the luxury market.

VW used the Tokyo motor show to unveil a 12-cylinder engine as the first step in its strategy. The 5.6 litre powerplant is the first of a new generation of engines which will be installed in the new cars.

Ferdinand Piëch, VW chairman, said: "In the future, we will be more active in niche segments." Among other products being *considered were sports cars* and off-road vehicles.

VW's new engine was one of three upmarket products announced yesterday by Germany's leading carmakers. Mercedes-Benz *unveiled its push upmarket* in the form of the Maybach limousine. The car, expected to cost at least $245,000, is bigger and more luxurious than its existing flagship S600 limousine.

Jürgen Schrempp, chairman of the Daimler-Benz parent company, said a decision on whether to put the car into production would be made "early next year".

Richard Charlesworth, head of public affairs at Rolls-Royce, said of the Maybach: "It's a vote of confidence in the future of the high luxury sector by one of the world's foremost luxury carmakers, and that's got to be good for all of us."

Meanwhile, BMW's initia*tive in the luxury sector will* be the Z07 two-seater sports car. The vehicle uses a 5.9 litre V8 engine and is expected to cost about DM200,000 ($112,000). Bernd Pischetsrieder, chairman, said BMW *did not expect production to* exceed 10,000 cars a year.

BMW also reported a rise in group sales for the nine months to September to DM43.83bn from DM37.54bn. Units sold climbed to 911,187 from 863,012.

VW announced a 8.9 per cent rise in unit sales for the first nine months, to 3.2m vehicles.

Observer, Page 15

Hungary launches Matav privatisation

By Anatol Lieven and Kester Eddy in Budapest

APV, the Hungarian privatisation agency, and its industrial partners yesterday launched the sale of telecommunications group Matav, in what will be one of the biggest public offers in central Europe.

The agency, together with MagyarCom – a joint venture between Ameritech, of the US, and Deutsche Telekom – will sell between 20 per cent and 27 per cent of Matav's equity, raising up to $1.2bn. Matav will also become the first Hungarian company to be listed on the New York Stock Exchange when it joins the US market next month.

Its simultaneous listing on the Budapest exchange will lift that market's capitalisation by about 50 per cent.

The shares will be priced on November 13, with results of the offer announced by November 20.

Global co-ordinators are Merrill Lynch and CSFB, while Creditanstalt Securities will lead-manage the domestic retail offering.

Matav is the first central European telecoms group to launch an initial public offering.

The group is 67 per cent owned by MagyarCom and 25 per cent by APV. APV's stake will be cut to between 6.5 per cent and 12.5 per cent, *depending on whether* oversubscription leads to an extra allotment of shares. MagyarCom's stake will fall to about 60 per cent.

Judit Csiha, privatisation minister, said yesterday: "We believe that involving as many domestic investors as possible is very important." Up to 6 per cent of Matav's shares are being reserved for the retail offer.

Matav has established 500 outlets for subscriptions and a system that will allow individual investors to pay for up to 1,000 shares in instalments up to November 1998.

The company has shown impressive growth, more than doubling the number of telephone lines in Hungary since 1992. Pre-tax profits last year were Ft27.5bn ($140m).

However, it will lose its monopoly on international and domestic calls in 2001. There is also concern among some analysts over a dispute with local mobile operators over interconnection charges.

Douglas Hawkins, analyst with Nomura in London, said: "We have a pretty positive view on the company, but a significant element of its potential growth comes from inflation."

Asian telecoms offers, Page 19

EUROPEAN NEWS DIGEST

SCA advances to SKr3.3bn

A strong increase in volumes helped SCA, the Swedish pulp and paper group, to offset softer prices and lift nine-month profits by 28 per cent. SCA, the first of the big Nordic forestry companies to announce nine-month figures, reported a rise in pre-tax profits from SKr2.5bn to SKr3.3bn ($430m). Excluding one-off items, underlying profits advanced 19 per cent.

The improvement confirmed a continuing upswing in the highly cyclical European forestry sector. It was driven by steady earnings growth at SCA's hygiene paper operations – its biggest division – which produces items such as nappies, tissue and incontinence products. Group turnover rose from SKr41.7bn to SKr43.5bn. The figures were in line with market expectations, and SCA's most-traded B shares eased SKr0.50 to SKr178.50.

SCA said economic trends in Europe were favourable. Demand for hygiene products was expected to remain strong, while rising industrial activity would lift corrugated board sales. Volumes increased by 9 per cent, offsetting a decline in average prices. Net earnings per share were SKr10.51, against SKr7.62. *Greg McIvor, Stockholm*

■ AIRCRAFT

Dassault ahead at FFr1.29bn

Dassault Aviation, the privately-controlled aircraft maker in which the French state holds 46 per cent, has reported a significant improvement in first-half income. Consolidated pre-tax attributable profits were FFr1.29bn ($216m), up from FFr1.1bn a year ago. The result came on turnover up from FFr5.93bn to FFr8.7bn, ahead a strong 46 per cent from on FFr5.93bn to FFr8.7bn. The company said full-year 1997 turnover should reach about FFr21bn, an improvement of more than 60 per cent on 1996; it said it had a FFr8.3bn net cash position.

The group took more than FFr9bn of orders in the first half, of which nearly half were export orders and 40 per cent from the civil aviation sector. Serge Dassault, chairman, said efforts to promote the company's new Rafale fighter had aroused the interest of several foreign air forces.

European defence industry observers are still waiting to see whether a merger between Dassault and Aerospatiale, the state-owned aerospace group, is to go ahead. The new Socialist-led government is though to believe that Mr Dassault is unlikely to be persuaded to proceed with the merger in the short term. *David Owen, Paris*

■ LUXURY GOODS

Bally to cut 900 jobs

Bally, Switzerland's leading luxury shoe company, is cutting nearly 900 jobs, or nearly one-fifth of its workforce, in an effort to bolster profitability. Last year it made profits of SFr11m ($7.4m) before interest and tax, on sales of about SFr1bn. It said yesterday it expected to earn SFr15m in the current year, and SFr30m in 1998.

Bally, part of the Oerlikon-Bührle conglomerate, has been struggling for years to transform itself from a marginally profitable Swiss shoemaker into a successful global brand. However, its plans suffered a setback in August when Ernst Thomke, a well-known "company doctor", resigned as chief executive after the parent company refused to support his plans to float Bally on the stock market. Bally, which is still seeking a replacement, indicated that its promised recovery was taking longer than expected to materialise. Sales had dropped $100m and margins had slipped by 5 per cent. *William Hall, Schönenwerd*

■ SUPERMARKETS

Casino family rift widens

The rift among members of the family defending Casino, the French supermarket group, against a hostile FFr31bn ($5.18bn) bid by rival Promodès yesterday appeared to widen. Antoine Guichard, the family spokesman who favours an alternative "white knight" bid from Rallye, another supermarket group, told Les Echos, the daily financial newspaper, that Rallye had already beaten Promodès. "The defeat of Promodès is already mathematically guaranteed. As far as I'm concerned, it's all over," he said. He was dismissing reports that a meeting of shareholders on Saturday had failed to reach consensus on rejecting the Promodès bid. Mr Guichard said every family member in attendance on Saturday had rejected the idea of selling shares to Promodès.

However, Xavier Kemlin, a shareholder from the family group, yesterday told French radio there was considerable support for the original bid. He said: "A certain number of very important people in the family have clearly chosen Promodès." *Agencies, Paris*

■ AUSTRIA

Erste Bank seeks Sch10bn

Erste Bank, Austria's second biggest bank, plans to raise an estimated Sch10bn ($796m) in the largest public share offering in Austrian history. The company launched a nationwide TV advertising campaign yesterday to win the support of small investors for next month's issue of 30 per cent of its shares.

It has set up a UK-style share information office and will be directly mailing its customers with details of the issue. Andreas Treichl, new chief executive of Erste Bank, said yesterday: "We want all Austrians to be in no doubt that the offer will retail-friendly."

Austrian investors have been starved of new equity issues for more than a year, and Erste Bank's decision to target the local retail market, rather than rely on international investors, follows evidence of heavy demand for the Sch5bn Austrian Tabak IPO, which is due to be priced next week. Creditanstalt Investment Bank, which is leading the issue, said yesterday, that the subscription period for small investors had been closed due to "very strong demand". *William Hall*

■ ROMANIA

Agency sells cement stake

The Romanian privatisation agency yesterday sold its majority stake in the Casial cement works to Lasselsberger, of Austria, for $50m. The sale follows the privatisation of the Romcim group last month and means that 80 per cent of Romania's cement industry is now in private hands.

Casial had a turnover of $190m in 1996 and employs 1,456 people. It made a pre-tax profit of $1.5m in the first eight months of this year. Lasselsberger has committed itself to investing $30m over the next four years and will also spend $5m on cleaning up the plant's environs. *Anatol Lieven, Budapest*

■ CHEMICALS JOINT VENTURE

Shell-BASF delay

Shell International Chemicals and BASF, two chemicals groups, have been asked by the European Commission to supply more information on their planned joint venture in polyethylene. Their application to have the deal cleared by the competition authorities in Brussels has been withdrawn while questions are answered, but Shell said yesterday it would re-file soon and still hoped to get approval before the end of the year. The combined venture is expected to have a market share of between 10 per cent and 20 per cent. *Roger Taylor, London*

هكذا من الأصل

SmithKline's Poste to chair Cerebrus

By Daniel Green

The UK biotechnology sector will receive a fillip today with the appointment of George Poste, former head of SmithKline Beecham's research and development for six years, as non-executive chairman of privately-held Cerebrus.

The move is significant because board level directors at SmithKline are allowed to take only one external directorship.

"I've been asked to join many companies but I've kept my powder dry," said the iconoclastic Dr Poste, acknowledging that his decision was likely to improve the chances of a successful flotation of the company within 12 months.

Cerebrus specialises in brain research and is developing treatments for Alzheimer's disease, stroke and anxiety. It already has one drug halfway through clinical trials.

Most biotech companies try to float with a market capitalisation of more than £100m ($162m).

However, Cerebrus is likely to wait until the stock market is more enthusiastic about biotechnology companies. Investors have been bruised by a series of failed clinical trials this year that have led to sharp falls in share prices.

Cerebrus, based in Wokingham, Berkshire, was founded two years ago by a group of scientists from Wyeth, the drugs subsidiary of US company.

Mr Chris Evans, the UK's best-known biotechnology entrepreneur, supplied much of the start-up capital and still owns 7.5 per cent of the company. Its chief executive, Andrew Smith, is a former managing director of SmithKline Beecham UK.

Dr Poste said he picked Cerebrus for several reasons.

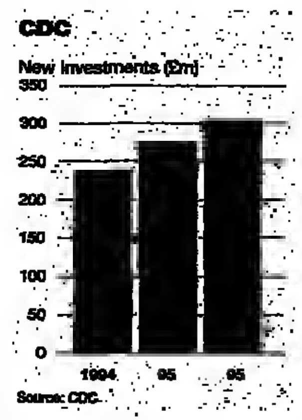
"I knew I was going to join a neurology company because there will be many advances there over the next 10 years." He said Cerebrus had good science, which included methods of modelling neurological diseases so that potential treatments could be tested at an early stage.

Large drugs companies developing medicines for similar disease have expressed interest in buying these models, providing an early sales revenue for Cerebrus.

Start-up neurology companies are rare in Europe although there are about 20 in the US.

LEX COMMENT

CDC privatisation



That Britain's Labour government should have announced its first privatisation is remarkable enough; that the plan should have been cooked up by Clare Short, arch-opponent of rail privatisation, is even more so. "Public/private partnership", privatisation, call it what you will – the show is clearly back on the road. Moreover, the Commonwealth Development Corporation looks at first sight a promising candidate. Its developing world investments, heavily weighted towards loans, currently offer a pre-tax return of 8.2 per cent – not stunning but no basket-case either. Selling 60 per cent should present no great difficulty; investors might even be rather attracted to an unusual basket of stakes in the most emerging of markets.

Unfortunately, they are also bound to fret that the government's remaining influence – 40 per cent and a golden share – could be misused. And as Ms Short knows too well, the Railtrack flotation was a powerful demonstration of the extraordinary price-depressing effect such worries can have.

The problem, in short, is that CDC's new equity is likely to prove a rather expensive commodity – certainly by comparison with the gilt-edged yield at which the company can currently borrow.

Nor is privatisation likely to offer large financial benefits to compensate; there are, for instance, precious few costs to cut. In the real world of Treasury cash controls, setting CDC free may make pragmatic sense. But financially, the logic is lousy.

Dana plans to lift Russian interests

By Virginia Marsh

Dana Petroleum hopes to increase further its stake in Evikhon, a Russian independent oil company with significant interests in west Siberia.

The UK oil independent also hopes shortly to involve its powerful Russian partners, which include Lukoil and Yukos, in joint ventures in west Africa, and to take on further projects in the former Soviet Union.

Tom Cross, Dana's chief executive, said yesterday that Evikhon hoped to gain parliamentary approval by the end of the year to develop the Salym fields through a production sharing agreement.

The fields, to be developed through a 50:50 joint venture with Shell, have estimated recoverable oil reserves of 700m-1bn barrels.

Mr Cross, who recently joined Evikhon's board, said Dana was looking to increase its stake in the Russian company – which it recently doubled to 10 per cent – to a "significant" holding.

In west Africa, where it has built its presence through the acquisition of two UK-based companies in the past year, Dana hoped to secure the direct participation of its Russian partners.

In the former Soviet Union, Mr Crose said the company was looking at projects where potential reserves were 400m barrels and upwards. He said Dana had studied 70-80 fields in Siberia in the last four years.

The company was re-examining its portfolio following the acquisitions of Petrocelltic and Seafield Resources and by the end of the year would identify non-core assets for disposal.

Its new UK producing assets, together with some Russian production, enabled the company, set up in 1993, to make its first sales in the six months to June 30. It incurred pre-tax losses of £605,000 ($980,100) against £326,000 on sales of £1.68m.

Culligan agrees bid for Protean

By Roger Taylor

Culligan, the US water purification company, is offering £105m ($170m) cash for Protean, a similar UK business.

The recommended bid of 240p a share represents a premium of 78 per cent to the 135p at which the shares traded before the company said it was in talks last month.

The takeover is the latest in a rapid series of acquisitions by Culligan, which has bought 20 companies this year ranging from suppliers of bottled water to designers of big desalination plants. Protean is its largest acquisition this year.

Culligan, listed on the New York Stock Exchange with a market capitalisation of $1.1bn, is a leading supplier of water purification systems for home and industrial use. Its corporate customers include Coca-Cola, Pepsi-Cola, McDonald's and Ingersoll-Rand.

It is buying Protean mainly for its strength in the supply of "ultra-pure" water used by pharmaceuticals companies and silicon chip manufacturers.

Kenneth Wellings, president of Culligan's international divisions, said Protean

Flow of deals: Kenneth Wellings toasts the Protean acquisition, Culligan's 20th this year

had substantial expertise in this market and a strong brand name, Elga. He planned to expand sales of Elga products by marketing them through Culligan's US distribution channels.

Protean announced a near-16 per cent drop in pre-tax profits to £8.7m for the year to March 1997 after reorganisation costs. Its problems followed a sharp fall in sales at DWA, the German subsidiary which makes water purification units used for kidney dialysis. Mr Wellings said he believed DWA had turned the corner and said the company intended to expand the business. Culligan supplies similar products in the US.

He said the bid, at more than 18 times forecast earnings, was a full price but would not dilute Culligan's earnings.

Electra Fleming in Brazil venture

By Katharine Campbell

Electra Fleming, the UK private equity manager, is striking out into Brazil through a joint venture with Pactual Group, a local investment bank.

Other UK private equity managers have concentrated their international expansion on continental Europe. But Fred Vinton, chairman, said Electra Fleming wanted to look further afield.

"We have not been as quick off the mark in Europe as some of our competitors. But there is less competition in Brazil and the market is enormous. I won't say it is exactly a safe haven – but it seems attractive."

He said that privatisations, combined with the liberalisation of the telecommunications sector, would ensure a flow of opportunities. Family companies seeking expansion capital or wishing to effect a buy-out would also be targeted.

Pactual Electra Capital Partners will also be asking investors for $400m – with half the new money expected to come from Brazil.

Mr Vinton acknowledged that the lack of a past investment performance record in the region would make it tough. He hoped the fund raising exercise would be completed by next April.

Delphi faces criticism over plans for US issue

By George Graham

Delphi Group, the computer services company, faces a grilling from shareholders on Monday at an extraordinary meeting to vote on its plans to issue about £36m ($58m) of stock in the US.

Some institutional investors are upset that by choosing to issue American depositary receipts listed on the US's Nasdaq market, Delphi will not only dilute their holdings but will incur much higher costs than it would have done through a rights issue in the UK.

In addition, the resolution to approve the ADR issue will also amend a share option scheme, allowing directors to exercise options after six years even if the company has failed to satisfy the performance criteria attached to them.

But Delphi and its advisers yesterday defended the proposals, arguing that a US listing was important to the company's strategy.

Richard Pindar, finance director, said Delphi's US operations had been the fastest growing part of the group, and a US listing would help it to accelerate that growth.

In addition, he argued, Delphi might, over time, achieve the sort of rating attached to comparable US companies, so benefiting all shareholders.

"If we get a US-style rating, the value of the company goes up 20 per cent, and we think that's worthwhile," he said.

UK fund managers are unconvinced, noting that the ADR offering, to be managed by brokers Robinson Humphrey in Atlanta, would incur commissions of 7 per cent, compared with total fees of less than 2 per cent for a UK rights issue.

However, Delphi and its advisers, Close Brothers and NatWest Securities, explored the idea of a rights issue earlier this year and found no support among institutions.

Property takes a more global view

Norma Cohen reports on the growing trend of cross-border expansion

If there are any lingering doubts about the extent to which property has become an international business, one only need take a look at its professional advisers.

Earlier this week Richard Ellis, the UK chartered surveyor and property consultancy, said it had agreed terms for its own sale to Insignia Financial, the largest commercial and residential property service provider in the US.

In doing so, it mirrored a trend which is beginning to characterise the property consultancy business, which, up until a few years ago in the UK, was largely a home-grown sector.

"We very much believe that in the advisory world, many of our clients are looking for a global business," said Aubrey Adams, managing director at Savill Group, which recently sold a 20 per cent stake in itself to First Pacific Davies, one of south-east Asia's largest property advisers. "About 50 per cent of our clients are international clients."

Andrew Huntley, chairman of Richard Ellis, says this has very much been the company's view in seeking a US partner. "We knew we needed very much to have a North American business."

Multinational corporations are now increasingly looking for a single, professional adviser to assist them in meeting property needs in markets across the world.

"It is the cross-border flow of real estate business," he says. Moreover, in this case, Richard Ellis wanted an injection of fresh capital which the deal will bring to it. "We had wanted to co-invest along with our investors," he explained.

The deal will allow the company, which is building expertise in property investment and finance, to capitalise on that expertise for its own shareholders as well.

For Richard Ellis, however, the deal has had a down side. Donaldsons, its smaller rival which specialises in the rapidly expanding shopping centre sector, has called off a merger with the company which had been agreed in principle just two months ago. As a result, the price Insignia will pay for its acquisition will be reduced, Mr Huntley concedes.

"We were aware that there was a possibility of a deal [between Richard Ellis and a foreign partner], but it came on much faster than we expected," said Keith Martin, managing partner at Donaldsons. "We wondered if we were doing due diligence with the right party."

Mr Martin said that he did not expect the deal to be revived. But he, too, concedes that the industry is rapidly moving towards an international clientele wanting an international service.

"Look at other financial services firms like investment banking and fund management," Mr Martin says. "Property is no different."

For some firms, the move into international consultancy came years ago. Many, though, have opted for partnerships and joint ventures rather than acquisitions.

Paul Orchard-Lisle, managing partner at Healey & Baker, points out that his firm entered into a partnership seven years ago with the US-based Cushman & Wakefield, a property service firm largely owned indirectly by Mitsubishi Estates of Japan. "We took a view that world business is going global – Ford, Coca-Cola, IBM – and these would find it reassuring that their service providers did it too," he explains.

Under the terms of the partnership, each firm agrees to provide the same quality of service to each other's clients. Similar arrangements have been established for clients of the two firms in Canada, Latin America and Asia.

"The choice is stark," Mr Orchard-Lisle says: "Either you become a serious international player or you become a boutique. What I do not want to do is to hover between them."

Meanwhile, institutional and retail investors no longer view property as a domestic asset class. US investors are beginning to show interest in the UK property sector, for example, while the strong flow of funds from Asia has buoyed UK markets recently.

Mr Adams says that Savill's strong residential business has benefited greatly from its international links, noting that many UK residential property developments are pre-sold in Asia before marketing even begins at home.

However, property consultants concede that the cross-border expansion has a further factor driving it. Many of the staple services which have filled consultants' pockets historically are no longer nearly as profitable as they once were.

Fierce competition and the savage years of the recession in the 1990s forced fees down to levels where these services are now available at rock-bottom prices.

For consultancies to stay in business, they must widen their range of services into higher-margin areas such as corporate finance and investment advisory. And in these areas, international expertise is required.

"There are just some businesses we don't want to be in, such as mass portfolio valuations and landlord and tenant work," says Mr Adams. "What we want is to be in areas where the fees are higher."

Richard Ellis, in its latest deal, seems to have concluded that it too must broaden its business around the world in order to compete. The question now is whether those who fail to follow that path will be able to survive as property becomes a truly international business.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Dana Petroleum	6 mths to June 30	1.68	(-)	0.605L	(0.326L)	0.106L	(0.085L)	-	-	-	-	-
Grampian Holdings	6 mths to Aug 1 ✱	100.2	(91.5)	7.7	(6.88)	4.78†	(4.1)	2.1	Dec 18	1.95	-	6.6
Lady in Leisure Φ	Yr to July 31	2.61	(1.7)	0.041	(0.164L)	1.5†	(12.6L)	-	-	-	-	-
Ocean Wilsons	6 mths to June 30	42.2	(38.5)	3.9	(0.917)	4.83	(1.73)	1§§	Nov 21	1	-	4.75
Q Φ	6 mths to June 30	0.796	(0.414)	0.244L	(0.773L)	1.7L†	(6.7L)	-	-	-	-	-
Viglen Technology	Yr to June 30	100.9	(106)	11	(11)	-	(-)	-	-	-	-	-
Wescol	Yr to July 31	38.1	(28.7)	1.68	(1.2)	3.5†	(2.6)	0.9	Dec 10	0.7	1.2	1

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Edinburgh	6 mths to Sept 30	495.2	(399.8)	24.4	(19.7)	8.3	(6.7)	3.65	Dec 5	3.45	-	10.75
Hambros Smaller $	Yr to Aug 31	127	(118)	0.223	(0.21)	0.34	(0.4)	0.15	Dec 4	0.35	0.15	0.35
Murray VCT	Yr to Aug 31 ☆	100.2	(95)	0.609	(0.187)	3	(1)	2	Dec 8	1.45	3	1.45

Earnings shown basic. Dividends shown net except §§Gross throughout. Figures in brackets are for corresponding period. †On increased capital. ✱Comparatives pro forma. ΦAim stock. $US currency. ☆ Comparatives for 13 weeks to August 31 1996.

INTERNATIONAL CAPITAL MARKETS

Prices retreat again on rate rise fears

GOVERNMENT BONDS

By Vincent Boland and Alexander Stevenson in London and John Labate in New York

Government bond markets retreated again as worries about higher interest rates in the US and Germany continued the bearish mood. Investors' focus is on today's Bundesbank council meeting and next week's US employment cost index, seen as a key barometer of inflation.

The employment cost index is expected to be closely monitored by the Federal Reserve as it ponders interest rates. Short-dated US Treasuries have weakened recently amid expectations that a rise in rates could be in the offing.

"Markets in the last few days have realised the Fed could be on the verge of tightening policy again," said Sanjay Joshi, chief bond economist at Daiwa Europe. That has prompted investors to "look to reduce positions after a very good year on bond markets".

Mr Joshi said there was little reason for the Bundesbank to make any change to its current interest rate policy before early next year. "The market would like a clear statement to that effect to dispel its fears, but they are unlikely to get it for another three or four weeks," he added.

GERMAN BUNDS gave up early gains after the Bundesbank added more than DM5bn to the 30-year bund and said it would add DM1bn to the five-year tomorrow. In London the December bund futures contract settled at 101.32, down 0.37, with nearly 250,000 contrects traded on Liffe.

UK GILTS remained virtually unmoved in quiet trading, in spite of monthly retail sales figures showing a sharp fall in volume during September. However, they out-performed bunds, with the spread against 10-year bunds narrowing by 4 basis points to 98 points.

Investors were unsure how much trust to place in the retail sales figures, which were distorted by a fall after the death of Diana, Princess of Wales. The City is awaiting figures for third-quarter gross domestic product, due tomorrow, which are expected to show growth of around 4 per cent.

Don Smith, gilts strategist at HSBC, said: "If anything, this drop in sales volume shifts the probability of a rate hike from November to December, but we are focusing more on Friday's GDP figures."

FRENCH BONDS got the jitters, with the notional December future sliding 0.44 to 97.82. **ITALIAN BTPs** were weaker, with the December contract settling 0.31 lower at 111.53, but it was underpinned by preliminary figures showing October inflation was lower than forecast.

US TREASURY prices fell slightly in quiet morning trading. The benchmark 30-year bond had lost $\frac{1}{32}$ to $99\frac{21}{32}$ by midday, sending the yield up to 6.419 per cent. The 10-year bond also moved lower, down $\frac{1}{32}$ to $99\frac{7}{8}$, yielding 6.132 per cent, while the two-year note lost $\frac{1}{32}$ to $99\frac{31}{32}$, yielding 5.903 per cent.

The expectation of a rise in short-term rates has been one reason investors have cooled on short-term bonds. Another factor is supply, with recent announcements of new auctions in two-year and five-year notes. The Federal Funds rate stood at $5\frac{11}{16}$ per cent by early afternoon.

Ken Fan, US bond strategist at Paribas Capital Markets, said there had been "a flattening of the yield curve from 60 basis points to 52 points" since Alan Greenspan, Fed chairman, last spoke in early October.

Colombia to sell 10-year Treasuries

By Adam Thomson

Colombia's internal public debt market is developing. For the first time in the country's history, investors will be able to buy 10-year Treasury paper (TESs) through an auction, which is being held today.

The move towards longer maturities on public debt instruments – the longest maturities had been seven years – is indicative of the nation's increasingly active internal public debt market. The government expects today's auction to be the first of regular, quarterly anctions to sell the 10-year Treasury paper.

The market has developed quickly. In 1996, the government raised only $600m in the domestic market, against $1.4bn from sovereign bond issues on the world's capital markets. But this year, the government's attention has increasingly turned inwards. Up to September, the government bad raised $2bn through TESs in the internal market.

"The idea is to create a more dynamic, more liquid and deeper domestic market," said Clemente del Valle, Colombia's director of public credit. "By developing the internal public debt market, we are essentially creating the backbone of a strong domestic capital market."

At the heart of the transformation are the market-makers – financial institutions that guarantee liquidity in the primary public debt market and promote trading on the secondary market. In March, borrowing heavily from the Spanish model, the government appointed 27 provisional market-makers to inject life into the sluggish market.

"Since we implemented the scheme, TESs have become some of the most traded instruments in the market," said Mr del Valle.

The government says it will choose the definitive market-makers by March next year, using a points system to evaluate the performance of each one. It plans to have between 10 and 13 market-makers after the final evaluation.

Of the 22 market-makers involved at present (five have opted out since the model started operating), Banco Ganadero is one of tha leaders, having purchased approximately 8 per cent of the total TESs auctioned this year in the primary market.

"In a market like Colombia, where there is a serious lack of investment capacity, market-makers are increasing both interest and the size of portfolio," said Miguel Largacha, the bank's vice-president.

While internalising more of the nation's debt forms part of a strategy to diversify and reduce its exposure to exchange rate risk from debt held in foreign currencies, one of the main aims is to establish benchmarks for the domestic capital market.

Until this year, Colombia's long-term instruments carried short-term interest rates, making for a volatile investment. That scared off many institutional investors. But the government hopes that, by establishing benchmarks based on TES interest rates, its capital market will become more attractive.

German banks bring flood of Pfandbriefe

INTERNATIONAL BONDS

By Edward Luce

German mortgage banks yesterday flooded the markets with increases to recent Pfandbrief offerings and a debut deal in sterling from Hypothekenbank in Essen.

Frankfurter Hypo, Germany's second largest mortgage bank, also followed up its recent French franc debut with its first global Pfandbrief. The DM2bn issue, underwritten by Deutsche Bank and Morgan Stanley, will be priced today.

Officials said they expected to distribute about 50 per cent of the offering to overseas investors. "The mortgage banks are very keen to internationalise their investor base," said one official in Frankfurt, adding that it was the first non-domestic Pfandbrief to contain a repo facility for investors. "We want to make sure the bond is as liquid as possible." Holders will be guaranteed a minimum bid/offer spread for repo transactions.

Hypo in Essen, Germany's sixth largest mortgage bank, said it priced its debut sterling offering relatively generously to bring in new investors.

"We have been educating UK investors about Pfandbriefe," said an official at HSBC Markets, joint lead witb Commerzbank, which owns a majority of Hypo in Essen. At 20 basis points over gilts, the bond was priced to yield double the spread of recent deals from other AAA borrowers, such as the European Investment Bank and the Inter-American Development Bank. Hypo in Essen is also said to be planning a debut global bond in the next few days.

PSM, an Indonesian finance house, used Indonesian Motor Vehicle Funding, a special purpose vehicle, to become only the second Indonesian borrower to launch an asset-backed deal, with a $177.6m offering.

An official at Salomon Brothers, sole lead, said the deal was unaffected by turmoil on the Asian bond markets yesterday.

Continuing worries about Asian credits saw Thailand's 10-year yankee bond widening by 20 basis points to a spread of 230 basis points in trading yesterday. The Korea Development Bank's four-year dollar bond bas widened by 15 basis points so far this week, to 120 basis points.

The IMVF bond, which has an average life of just over a year, was priced to yield a spread of 17 basis points over one-month Libor. The deal, which securitises receivables on loans to Indonesian consumers, proved popular with European specialist funds and bank portfolios.

The rupiah-denominated receivables will be swapped into US dollars and domiciled with the non-recourse vehicle in the Cayman Islands.

TOHOKU ELECTRIC, the Japanese power company, yesterday visited the international bond markets for the first time since 1992.

Its $400m offering, lead-managed by Goldman Sachs and Industrial Bank of Japan, was priced to yield 38 basis points over five-year Treasury bonds. This was wider than expected in order to reassure investors unsettled by the recent spread-widening in the dollar sector, said a banker.

The Republic of China's 30-year dollar global and five-year dollar offering will be formally allocated today in a much-awaited offering.

But bankers said that at a spread of 115 basis points and 65 to 70 basis points, respectively, the deal was looking tight considering the turbulence in Asia.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Tohoku Electric Power Co	400	6.50	99.853R	Oct 2002	0.275R	+38(5⅞%Sep02)	Goldman/IBJ Intl
Oil Purchase Company(a,‡)	290	7.10	99.993R	Apr 2002	noneR	+123(6Aug00)	Salomon Brothers Intl
Indonesian MVF, 97-1(b)‡	177.6	(b1)	100.00	Jun 2000	0.30	-	Salomon Brothers Intl
CSFB, London Branch(c)§	100	2.00	100.00	Nov 2005	2.50	-	CSFB
Banco Safra, Cayman Is	100	8.75#	99.915R	Oct 2002	0.625R	+270(5⅞%-02)	JP Morgan Securities
Banco Safra, Cayman Is	100	8.125#	99.773R	Nov 2000	0.50R	+225(6Aug00)	JP Morgan Securities
D-MARKS							
Frankfurter Hypo(d)	2bn	(d1)	(d1)R	Nov 2004	0.30R	(d1)(7¼%-04)	Deutsche/Morgan Stanley
State of Hesse(e)	1bn	6.75	99.27R	Jan 2008	0.15R	+15¼(6Jul07)	Helaba/Merrill/Paribas
YEN							
World Bank(e)★	10bn	3.50#	100.00	Oct 2001	1.50	-	Wako Intl Europe
STERLING							
Hypothekenbank in Essen(j)	150	6.875	99.73R	Nov 2004	0.30R	+20(6¾Nov04)	Commerzbank/HSBC
CIBC(f)	70	7.66	100.25	Nov 2002	0.25	-	UBS
FRENCH FRANCS							
La Defense(g)‡	2.02bn	-	-	2004	-	-	Citibank International
Baden-Wuerttemberg L-Fin‡	1bn	(h)	99.55R	Nov 2007	0.325R	-	Société Générale
ITALIAN LIRE							
Norddeutsche Landesbank	300bn	5.375	101.038	Nov 2000	1.375	-	IMI Bank Luxembourg
NEW ZEALAND DOLLARS							
New Sth Wales Trsy Corp	100	7.25	100.875	Nov 2000	1.375	-	TD Securities
LUXEMBOURG FRANCS							
Cregem International Bank	2bn	5.50	102.15	Apr 2004	1.875	-	BIL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: Fixed re-offer price; fees shown at re-offer level. a) Average life: 2.86 yrs. Quarterly coupons. b) Motor Vehicle Funding. Legal maturity: Sep 01. Av life: 1.03 yrs. b1) 1-mth Libor +17bp. c) Exchangeable into Zurich Insurance registered shares at SFr770.47. FX: SFr1.482/$. Callable from 17/11/00 at par. d) Oeffentliche Pfandbrief, global. d1) Priced today 10–12bp over Treuhand. e) Redeemed in US$. f) Issuer's option to convert from Nov 98 to 3-mth Libor +25bp. g) 4-tranche deal backed by French commercial properties. h) Tec-10 –90bp. j) Oeffentliche Pfandbriefe. i) Long 1st coupon. a) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Oct 22	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	03/99	6.250	101.6580	5.00	+0.07	–0.02	+0.34	–1.63
	10/07	10.000	126.7340	6.31	+0.04	+0.01	+0.21	–1.19
Austria	09/99	7.000	103.8900	4.80	+0.04	+0.17	+0.46	+1.30
	07/07	5.625	96.7900	5.79	+0.05	+0.15	+0.21	–0.24
Belgium	04/99	7.000	103.3800	4.80	+0.02	+0.11	+0.49	+1.21
	03/07	6.250	102.7200	5.86	+0.08	+0.15	+0.23	–0.19
Canada	03/99	4.000	100.0300	3.96	–0.03	+0.01	–0.03	–0.27
	06/07	7.250	110.8700	6.74	+0.04	+0.07	+0.02	–0.67
Denmark	12/99	6.000	101.7400	5.10	+0.07	+0.19	+0.40	+0.91
	11/07	7.000	105.3800	6.26	+0.09	+0.19	+0.17	–0.52
Finland	01/99	11.000	107.6530	4.37	+0.05	+0.04	+0.22	+0.66
	04/06	7.250	108.6840	5.91	+0.07	+0.12	+0.18	–0.52
France	11/99	7.000	104.4500	4.66	+0.02	+0.17	+0.53	+0.88
	10/04	6.750	107.1400	5.49	+0.03	+0.14	+0.38	+0.08
	10/07	5.500	98.0300	5.76	+0.03	+0.13	+0.28	–0.16
	10/25	6.000	96.4800	6.27	+0.03	+0.12	+0.15	–0.54
Germany	06/99	3.500	98.4100	4.52	+0.02	+0.18	+0.54	+1.06
	07/04	6.750	106.7200	5.52	+0.04	+0.16	+0.34	–0.06
	07/07	8.000	101.7100	5.76	+0.06	+0.15	+0.22	–0.18
	07/27	6.500	102.6400	6.30	+0.06	+0.16	+0.13	–0.49
Ireland	04/99	6.250	100.7900	5.64	-	+0.11	+0.20	–0.23
	08/06	8.000	112.2300	6.16	+0.04	+0.12	+0.11	–0.72
Italy	06/00	8.000	101.1700	5.50	+0.07	+0.24	+0.22	–1.69
	05/02	6.250	102.0500	5.73	+0.04	+0.17	+0.23	–1.80
	07/07	6.750	104.2700	6.16	+0.04	+0.14	+0.12	–1.99
	11/26	7.250	108.2000	6.61	+0.01	+0.06	–0.03	–2.05
Japan	06/99	4.800	107.0400	0.50	+0.01	–	+0.04	–0.39
	12/02	4.800	117.3400	1.30	+0.01	–0.04	–0.14	–0.75
	09/05	3.000	108.8800	1.79	-	–0.04	–0.19	–0.91
	03/17	3.500	113.8000	2.59	–0.01	–0.05	–0.23	–0.78
Netherlands	06/99	7.500	104.4600	4.58	+0.02	+0.15	+0.45	+1.17
	02/07	5.750	100.0900	5.73	+0.04	+0.13	+0.22	–0.11
New Zealand	02/00	6.500	99.0635	6.92	+0.06	+0.12	+0.21	–0.12
	11/06	8.000	108.7161	6.68	+0.02	+0.09	+0.12	–0.61
Norway	01/99	9.000	105.1600	4.67	+0.07	+0.14	+0.23	–0.78
	01/07	6.750	105.8000	5.91	+0.07	+0.13	+0.07	–0.86
Portugal	03/99	6.500	104.4231	5.12	–0.04	+0.06	+0.11	–1.56
	02/07	6.625	103.6104	6.10	+0.04	+0.12	+0.12	–1.45
Spain	07/99	7.400	103.8065	5.06	+0.04	+0.13	+0.30	–1.57
	03/07	7.350	108.9334	6.07	+0.03	+0.14	+0.16	–1.67
Sweden	01/99	11.000	106.5230	5.35	+0.19	+0.36	+0.50	–0.02
	08/07	8.000	110.5870	6.50	+0.14	+0.28	+0.24	–0.87
Switzerland	03/99	4.000	102.3500	2.23	+0.10	+0.19	+0.49	+0.42
	06/07	4.500	106.5000	3.66	+0.05	+0.12	+0.19	–0.17
UK	06/99	6.000	98.4688	6.91	-	+0.06	+0.06	+0.61
	11/04	6.750	100.4922	6.66	+0.01	+0.17	–0.06	–0.53
	12/07	7.250	104.6250	6.61	+0.01	+0.16	–0.01	–0.99
	06/21	8.000	117.3438	6.55	-	+0.09	-	–1.31
US	07/99	5.875	99.8060	5.93	+0.02	+0.10	+0.16	–0.01
	05/04	7.250	105.6060	6.16	+0.01	+0.06	+0.11	–0.15
	08/07	6.125	99.8590	6.14	-	+0.04	+0.06	–0.43
	08/27	6.375	99.3130	6.43	+0.01	+0.04	+0.06	–0.42
ECU	03/99	5.000	100.1700	4.85	+0.02	+0.09	+0.32	+0.66
	04/07	6.500	97.2300	5.88	+0.01	+0.10	+0.18	–0.42

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Oct 22	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	6.27	+0.57	+0.12
Austria	5.74	+0.04	–0.41
Belgium	5.80	+0.10	–0.35
Canada	5.72	+0.02	–0.43
Denmark	6.18	+0.48	+0.03
Finland	5.84	+0.14	–0.31
France	5.73	+0.03	–0.42
Germany	5.70	-	–0.45
Ireland	6.12	+0.42	–0.03
Italy	6.12	+0.42	–0.03
Japan	1.79	–3.91	–4.36
Netherlands	5.69	–0.01	–0.46
New Zealand	6.66	+0.96	+0.51
Norway	5.84	+0.14	–0.31
Portugal	6.06	+0.36	–0.09
Spain	6.02	+0.32	–0.13
Sweden	6.36	+0.66	+0.21
Switzerland	3.63	–2.07	–2.52
UK	6.60	+0.90	+0.45
US	6.15	+0.45	-
ECU	5.86	+0.16	–0.29

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

EMERGING MARKET BONDS

Oct 22	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB–	97.9846	7.55	-	+0.12	+1.47
Poland	07/00	7.750	BBB–	102.5963	6.65	-	+0.21	+0.67
Russia	11/01	9.250	BB–	104.0128	8.05	+0.03	–0.26	+2.02
LATIN AMERICA								
Argentina	01/17	11.375	BB	116.3984	9.49	–0.03	+0.05	+3.19
Brazil	11/01	8.875	BB–	102.9383	7.99	-	+0.10	+1.96
Mexico	01/07	9.875	BB	107.9771	8.60	–0.02	–0.06	+2.45
ASIA								
China	07/06	7.750	BBB+	104.1166	7.06	+0.02	+0.08	+0.95
Philippines	10/16	8.750	BB+	98.8991	8.87	+0.04	+0.12	+2.59
Thailand	04/07	7.750	A–	97.3541	8.15	-	+0.31	+2.00
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB–	103.1341	7.79	-	+0.14	+1.81
South Africa	12/99	9.625	BB+	104.3804	7.36	+0.50	+0.56	+1.45
Turkey	05/02	10.000	B	105.3806	8.55	+0.06	–0.14	+2.47
BRADY BONDS								
Argentina	03/23	5.500	BB	75.5246	8.39	–0.04	+0.05	+1.81
Brazil	04/24	5.250	BB–	73.7486	8.39	–0.03	+0.01	+2.00
Mexico	12/19	6.250	BB	82.5773	7.82	-	+0.07	+1.61
Venezuela	03/20	6.750	B+	86.9640	8.01	–0.07	+0.14	+1.68

London closing. Prices in US$.
Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	98.04	97.82	–0.44	98.26	97.78	166,492	128,399
Mar	97.54	97.30	–0.44	97.62	97.64	49	7,678
Jun	97.10	96.86	–0.44	97.10	97.10	2	-

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Nov	Calls Dec	Calls Mar	Puts Nov	Puts Dec	Puts Mar
97	-	1.52	-	0.04	0.26	0.90
98	0.47	0.81	1.06	0.21	0.55	1.32
99	0.07	0.34	0.65	0.81	1.08	1.89
100	0.01	0.10	0.35	1.75	1.84	-
101	0.01	0.03	0.19	2.75	2.78	-

Est. vol. total, Calls 21,763 Puts 16,399. Previous day's open int., Calls 86,257 Puts 102,770.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	101.77	101.32	-0.37	101.88	101.29	262189	266916
Mar	101.00	100.60	-0.38	101.15	100.61	6715	8872

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
10100	0.40	0.79	0.65	0.98	0.06	0.47	1.05	1.38
10150	0.10	0.52	0.46	0.77	0.28	0.70	1.36	1.67
10200	0.02	0.31	0.31	0.58	0.70	0.99	1.71	1.99

Est. vol. total, Calls 63742 Puts 61938. Previous day's open int., Calls 252277 Puts 318604

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102.64	102.54	–0.09	102.70	102.42	179,150	245,669
Mar	101.90	101.84	–0.08	101.85	101.77	4,025	14,753

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111.70	111.53	-0.31	112.22	111.45	57753	113151
Mar	111.90	111.49	-0.30	111.90	111.66	98	1424

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
11150	0.72	1.40	0.69	1.41
11200	0.46	1.20	0.96	1.71
11250	0.31	0.97	1.28	1.95

Est. vol. total, Calls 4147 Puts 7755. Previous day's open int., Calls 123645 Puts 110759

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	102.91	102.61	-0.40	103.27	102.56	111,432	78,517
Mar		102.14					50

UK

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	118-03	118-02	-0-01	118-21	117-31	86167	174185
Mar	118-04	118-01	-0-01	118-13	118-00	9241	21181

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
118	0-18	0-63	1-26	1-60	0-15	0-60	1-24	1-55
119	0-03	0-36	0-60	1-30	0-63	1-32	1-58	2-28
120	0-01	0-18	0-39	1-06	1-61	2-15	2-37	3-04

Est. vol. total, Calls 6978 Puts 2565. Previous day's open int., Calls 64150 Puts 39195

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.34	97.18	-0.52	97.50	97.18	770	4,710

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	115-04	115-01	-0-02	115-09	114-31	311,281	628,558
Mar	114-24	114-25	-	114-28	114-22	448	68,742
Jun	-	114-13	-	-	-	45	6,301

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	129.66			129.72	129.50	2238	n/a
Mar	128.85			128.72	128.60	[illegible]	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

US CORPORATE BONDS

Oct 21	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA–	103.1672	6.44	–0.01	+0.06	+0.38
NY Tel	08/25	7.00	A+	98.2381	7.31	–	+0.05	+0.90
CWE	05/08	8.00	BBB	107.2457	7.01	–0.01	+0.04	+0.86
FINANCIALS								
GECC	05/07	8.75	AAA	114.8306	6.61	–0.01	+0.04	+0.48
Banc One	08/02	7.25	A+	102.9705	6.51	–	+0.06	+0.45
US West	01/07	7.30	BBB+	102.2797	6.95	–0.01	+0.10	+0.82
INDUSTRIALS								
WMX Tech	04/99	6.25	A–	100.0711	6.18	+0.02	+0.06	+0.31
Wal Mart	05/02	8.75	AA	101.4174	6.38	–0.01	+0.06	+0.32
Dayton Hud	06/21	9.70	BBB+	125.5721	7.39	–	+0.09	+0.98
AGENCIES								
FHLMC	04/07	7.14	N/A	105.1287	6.40	–0.01	+0.03	+0.27
SLMA	03/00	7.50	N/A	103.1938	6.03	–	+0.08	+0.08
FNMA	02/19	8.95	N/A	123.3905	6.60	–0.01	+0.04	+0.39
FFCB	06/06	8.95	N/A	118.6742	6.39	–0.01	+0.06	+0.26
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.5000	0.00	–	–	–
AK Stl	12/01	9.13	BB–	105.0000	0.00	–	–	–
Pacelts	08/04	10.75	B–	104.7500	0.00	–	–	–

New York closing. Source: Interactive Data/FT Information.
Standard & Poor's ratings. Yields: semi-annual basis.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.90
Prime rate	8½	Two month	-	Three year	5.97
Broker loan rate	7⅛	Three month	5.10	Five year	6.07
Fed funds	5$\frac{11}{16}$	Six month	5.37	10-year	6.14
Fed funds at intervention	-	One year	5.58	30-year	6.42

INTERNATIONAL BONDS

Oct 22	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	99.8200	5.80	+0.06	+0.23	+0.04
Spain	01/07	5.750	AA	98.9000	5.91	+0.06	+0.29	+0.15
Philip Morris	08/04	6.375	A	97.8465	6.62	–0.07	+0.27	+0.31
ABN Amro FRN	03/06	3.625	n/a	99.4772	5.79	+0.04	+0.32	+0.15
EURO FFR								
Austria	01/04	5.500	AAA	99.7900	5.54	+0.05	+0.43	+0.05
Abbey Nat	02/04	0.000	AA	102.1800	5.57	+0.02	+0.39	+0.08
Cred Foncier	02/04	9.125	A	116.6500	5.88	+0.05	+0.39	+0.39
Abbey Nat FRN	09/06	4.610	AAr	99.2583	4.61	+0.06	+0.31	–1.06
EURO LIRA								
EIB	02/07	7.000	AAA	106.4000	6.07	+0.02	+0.02	–0.09
Abbey Nat	02/02	6.800	AA	103.7000	5.80	+0.04	+0.17	–0.05
Walt Disney	06/00	6.625	A	106.3800	5.93	+0.04	+0.06	+0.40
Abbey Nat FRN	09/07	8.000	AAr	103.1400	7.12	+0.11	+0.24	+0.96
STERLING								
EIB	12/07	7.625	AAA	105.3502	6.87	+0.02	+0.02	+0.26
Dresdner Bk	12/07	7.750	AA	105.3995	7.26	+0.02	–0.01	+0.65
RBS	01/07	8.375	A+	106.5185	7.37	+0.02	–0.05	+0.76
Abbey Nat FRN	02/02	7.400	AA	98.9450	6.74	+0.01	+0.01	+0.03
EURO $								
EIB	04/07	7.250	AAA	104.6937	6.57	-	+0.13	+0.42
ABN Amro	06/07	7.125	AA–	103.2678	6.66	-	–0.06	+0.51
Quebec	01/07	7.000	A+	101.4800	6.78	-	+0.11	+0.63
Citicorp FRN	02/04	5.781	A+	99.7413	5.83	–0.01	+0.22	–0.28
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	120.1267	5.62	+0.02	–0.03	+0.10
Toronto	05/04	8.500	AA+	114.2544	5.62	+0.02	–0.03	+0.10
Bell Canada	07/99	10.625	A+	109.1252	4.92	+0.02	+0.23	–0.04
Deutsche S FRN	08/02	5.875	AAA	101.8899	5.44	+0.01	+0.04	–0.09
EURO YEN								
World Bank	03/02	5.250	AAA	117.5800	1.14	+0.01	–0.11	+0.01
Spain	03/02	5.750	AA	119.4500	1.19	–0.02	–0.12	+0.06
Cred Foncier	08/02	4.750	A	114.2392	1.63	+0.01	–0.10	+0.50
Italy FRN	07/99	0.703	AA	100.7187	0.14	+0.02	+0.02	–0.36

London closing. Source: Interactive Data/FT Information.
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Wed Oct 22	Day's change %	Tue Oct 21	Accrued interest	xd adj. ytd
1 Up to 5 years (20)	120.16	0.01	120.14	2.59	8.29
2 5-15 years (20)	156.99	0.02	156.97	3.07	9.08
3 Over 15 years (4)	189.20	0.05	189.11	3.79	9.77
4 Irredeemables (4)	227.40	–0.17	227.78	4.58	9.50
5 All stocks (48)	150.33	0.02	150.30	3.07	9.03

UK Indices

	Low coupon yield Oct 22	Low Oct 21	Low Yr. ago	Medium coupon yield Oct 22	Medium Oct 21	Medium Yr. ago	High coupon yield Oct 22	High Oct 21	High Yr. ago
5 yrs	6.67	6.67	7.00	6.79	6.79	7.06	6.82	6.82	7.18
15 yrs	6.61	6.61	7.78	6.62	6.62	7.78	6.68	6.68	7.82
20 yrs	6.61	6.61	7.88	6.60	6.60	7.88	6.69	6.68	7.91
Irred.†	6.70	6.68	7.97						

Index-linked	Wed Oct 22	Day's change %	Tue Oct 21	Accrued interest	xd adj. ytd		Inflation 5% Oct 22	Oct 21	Yr. ago	Inflation 10% Oct 22	Oct 21	Yr. ago
6 Up to 5 years (2)	206.57	0.04	206.79	0.34	6.09	Up to 5 yrs	3.21	3.21	3.10	2.47	2.47	2.41
7 Over 5 years (10)	211.79	0.12	211.54	1.33	5.21	Over 5 yrs	3.20	3.21	3.55	2.89	2.90	3.34
8 All stocks (12)	210.51	0.11	210.28	1.22	5.25							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7⅞%; Medium: 8%-10⅞%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Oct 22	Oct 21	Oct 20	Oct 17	Oct 16	Yr ago	High*	Low*
Govt. Secs. (UK)	99.59	99.84	99.78	100.11	100.13	94.12	101.83	93.31
Fixed Interest	132.17	132.22	132.37	132.58	132.78	115.55	133.54	115.32

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

CURRENCIES AND MONEY

Hong Kong dollar peg gets support

MARKETS REPORT

By Richard Adams

The Hong Kong dollar was caught in the cross-fire of a stronger US dollar and a weakening equities market yesterday, after the south-east Asian currency turmoil continued to cause problems.

The Hong Kong dollar, which is pegged to the US dollar, had another bruising day. Only large-scale intervention by the Hong Kong monetary authority kept the dollar above the floor of its peg. But London analysts warned that the effort required to maintain the peg would hurt property and equity prices in Hong Kong.

The Hong Kong currency closed in London at HK$7.7495 – above the peg's floor of HK$7.80, but only a sliver above the monetary authority's intervention level of HK$7.75.

Hedge funds are said to have taken positions against the Hong Kong dollar, selling the currency in forward markets to buy US dollars. The one-year forward rate rose to HK$8.15 against the US dollar, not far off the Chinese yuan's rate of Yn8.28.

A severe lack of liquidity in the Hong Kong dollar has restricted the operations of the short funds, who are likely to switch their focus to Hang Seng futures.

Elsewhere, the Thai baht touched a record low against the US dollar, as political jitters continued in the absence of the appointment of a new finance minister in Thailand. Australian dollar also lost ground, through suspicions of interest rate cuts to come.

The US dollar's fundamentals helped it make gains in London market trading, but then turned downwards against the D-Mark and the yen in New York.

At the close in London, the dollar was at DM1.7815 and Y120.67, little changed against the D-Mark or yen.

The pound retained many of its gains since the start of the week, in the aftermath of European single currency policy confusion. Neil MacKinnon, chief economist at Citibank in London, said: "Until the market is told otherwise, there is scope for sterling gains. DM2.95 seems a popular level."

The Swiss franc strengthened against the D-Mark and the dollar, on speculation the Swiss National Bank was going to tighten monetary policy. Earlier in the day the SNB had added liquidity to calm nervous money markets, sources said.

■ The Hong Kong dollar's plight was not helped by the decision of the Chinese authorities to cut their domestic interest rates.

China's move was said to be made to pep up retail interest in the "red chip" China Telecom IPO, which opened to a tepid response in the US yesterday. But – at a time when Hong Kong is raising its money market rates and scrambling to defend its currency – the move questioned the assumption that China would prefer a "one country, two systems, one monetary policy" structure.

Steve Jennions, at Crédit Agricole-Indosuez in London, said: "The Chinese authorities really do see Hong Kong as a separate entity.

"As far as they are concerned, they are acting for their own purposes. That means that Hong Kong cannot rely on the People's Bank, and that the Hong Kong dollar's depreciation to the yuan's level may not happen."

■ In London, Tung Chee-hwa, Hong Kong's post-colonial leader, ruled out devaluation. "We are not going to go down the route of devaluing to remain competitive," he said. But Mr Tung warned that higher interest rates would be used.

The Hong Kong dollar has been anchored to the US dollar at an official rate of 7.80 to one since 1983 but usually trades on the strong side of this peg. Mr Tung said the peg had served Hong Kong well for 14 years.

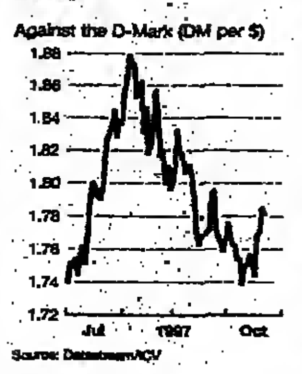
Hong Kong, with $85bn in foreign currency reserves, could put up a strong fight against the markets. But Taiwan, faced with a similar attack, allowed its currency to fall rather than use its $88bn reserves.

Bot Mr Jennions said there was some doubt that the peg could hold. "Are they prepared to sacrifice the economy to maintain the peg?" asked Mr Jennions.

Mr MacKinnon at Citibank said there was "a high probability the peg will crack", leading a flight to quality into the US dollar.

Dollar

Against the D-Mark (DM per $)



Source: Datastream/ICV

■ Pound in New York

Oct 22	--Latest--	-- Prev. close --
£ spot	1.6335	1.6350
1 mth	1.6314	1.6328
3 mth	1.6272	1.6289
1 yr	1.6110	1.6140

■ OTHER CURRENCIES

Oct 22	£	$
Czech Rp	53.9395 - 54.0416	33.0000 - 33.0430
Hungary	323.582 - 323.882	197.970 - 198.020
Iran	4906.50 - 4903.50	3000.00 - 3000.00
Kuwait	0.4972 - 0.4977	0.3042 - 0.3043
Poland	5.5728 - 5.5795	3.4095 - 3.4115
Russia	9578.17 - 9585.87	5860.00 - 5861.00
U.A.E.	6.0032 - 6.0072	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

COMMODITIES AND AGRICULTURE

Saudi Arabia to focus on natural gas

By Robert Corzine in Riyadh

Saudi Arabia, holder of the world's largest oil reserves, yesterday said it would focus future exploration efforts on natural gas in order to meet surging domestic demand.

A senior official at the Petroleum Ministry in Riyadh said the more extensive use of gas in the kingdom could free up between 200,000 and 300,000 barrels a day of additional crude oil for export within two years. Sandi Arabia currently burns crude oil in a number of power stations and desalination plants.

The official said any increase in crude exports as a result of fuel substitution within the kingdom would not breach the country's 8m b/d quota from the Organisation of Petroleum Exporting Countries.

"It's a cheap way of adding to crude exports," he said. But additional sales would only be made "if the market allows for this volume to come forth".

Some studies sneggest Saudi Arabia loses as much as $1.3bn a year in lost export revenues as a result of burning more than 230,000 barrels of crude a day for power generation, water desalination and other industrial purposes.

Nearly 50,000 barrels a day of diesel are also consumed domestically for similar purposes. The use of crude for power generation is also more costly than cleaner-burning gas, because oil-fired turbines require more maintenance and are more prone to breakdowns.

The expected boost in crude oil exports as a result of domestic fuel switching will also help offset a predicted reduction over the long term in Saudi exports of liquefied petroleum gas as a result of growing domestic demand for LPG.

Earlier this week Ali Al-Naimi, the petroleum minister, ruled out foreign companies taking a direct role in the exploration and development of Saudi Arabia's gas reserves. Yesterday he said a recently announced price increase for domestic gas – from 50 US cents per million British Thermal Units to 75 cents per million BTU – was a sufficient incentive for Saudi Aramco, the state petroleum company, to boost its gas activities.

The new price was "quite positive", but the official suggested Aramco will be cautious in assessing demand. Demand for gas is forecast to douhle by 2010 to around 75bn cubic meters a year, "but we should not assume all the demand potential will be realised".

Ali Al-Naimi declined to be drawn on any specific strategy Sandi Arabia may adopt at next month's Opec meeting. But he repeated Riyadh's belief that compliance with Opec quotas would be of greater financial benefit to member states than the greater volumes which result from the current overproduction.

The official added that growing economic uncertainty in Asia had so far not spilled over into oil demand in the region, which is now Saudi Arabia's most important market, accounting for about 60 per cent of exports in recent months.

Oil rallies on fall in stocks

MARKETS REPORT

By Gary Mead

World oil futures rallied yesterday in tha wake of data showing an unexpected drop in crude oil stocks. Cold weather in the US added to the bullish mood.

The American Petroleum Institute and the US Department of Energy hoth reported falls of more than 3.3m harrels in US stocks held in primary storage.

On the New York Mercantile Exchange, tha beuchmark December contract was up 54 cents at $21.40 a barrel in early trading. On London's International Petroleum Exchange, the December Brent crude contract rose 53 cents to $20.28 in late trading.

There were mixed fortunes for cocoa and coffee on the London International Financial Futures Exchange. Cocoa took more pounding from investment fund sellers, while coffee mounted a recovery as industry huyers began to sense bargains.

Investors continued to shy away from cocoa, convinced that global production levels in the medium-term augur poorly for significant price jumps. The December contract slid rapidly, touching a low of £1,057 a tonne. It later recovered and finished at £1,067 a tonne, £9 lower than the previous close.

Almost all the gains made in August and September – inspired by fears thet the latest El Niño weather pattern would damage crops – have now been ohliterated in a three-day purge. Increasingly favourable news concerning the crop from the Ivory Coast, tha world's hig-gest producer of cocoa beans, has diminished fears about the periodic warming of the tropical Pacific Ocean that reverberates globally.

On Naw York's Coffee, Sugar and Cocoa Exchange there was less of a slide in cocoa futures, as fund sellers balanced renewed manufacturer buying; the benchmark Decemher contract was down just $1 at $1,598 a tonne in morning trading.

Coffee attracted trade buyers and speculators covering short positions, and together they restored some of the previous collapse that brought it to a two-month low of $1,455 on Tuesday; the January contract closed $55 higher at $1,513 a tonne on the CSCE.

Near-record sugar crop forecast

By Gary Mead

World sugar production is forecast to reach near-record levels in 1997-98, with strong performances from the European Union and Brazil – still the world's biggest individual producer – more than compensating for decreased crops in eastern Europe, Thailand, India and Cuba.

According to figures published today by E.D. & F. Man, total world raw sugar production will rise by 578,000 tonnes to 123.6m tonnes in 1997-98, marginally below the record 1995-96 figure of 123.66m tonnes.

With global raw sugar consumption forecast by E.D. & F. Man to increase by another 2 per cent, to 123.16 tonnas (the bulk of the increase being in Asia and the Americas) the projected 1997-98 surplus of production over consumption stands at 432,000 tonnes, the tightest balance for four seasons.

However, the report points out that with considerable stock reduction expected (particularly in India) this apparent glohal physical tightness is somewhat illusory. But analysts concur that India could move into net deficit in 1998-99, as more reserves are sold and farmers continue to move away from sugar production into alternative crops.

Ashley Ashwood

Harvesting cane in Brazil, still the world's biggest producer

The EU in particular has enjoyed "near perfect growing conditions" this season, promising a white sugar yield of 17.4m tonnes, an increase of 840,000m tonnes. France – the world's biggest sugar beet producer – has had to extend its harvesting period by at least a week to cope with the large volume of beets.

But some leading cane producers, Thailand in particular, are faring less well. Thailand's Cane and Sugar Board has again lowered projections for cane projection for 1997-98, to 44.56m tonnes from the 59.04m tonnes forecast earlier this year.

Blame is pinned on insufficient rain, caused by the current El Niño weather system – a periodic warming of the tropical Pacific Ocean by a few degrees that reverberates globally.

"The El Niño factor is ... more likely to have an even greater part to play in the supply/demand equation towards the end of the 1997-98 and through to the first half of the 1998-99 season," says E.D. & F. Man.

Bumper crops in the EU and elsewhere have largely been discounted in prices.

A big sell-off hy investment funds in September saw speculative "long" positions – hets that prices would rise, partly on premature anticipation of the effects of El Niño – on New York's Coffee, Sngar and Cocoa Exchange reduced from more than 100,000 contracts to about 35,000.

That knocked the October future below the important 11 cents barrier to 10.60 cents a pound, though there has since been a small rally, with the March future at 11.76 cents yesterday.

COMMODITIES NEWS DIGEST

Australian coal industry under fire

Productivity at Australian coal mines is up to 37 per cent below that in the US, hampered by high staffing, low equipment utilisation and geological differences, according to a study commissioned by Rio Tinto, the world's biggest mining group. Leigh Clifford, chief executive of energy at Rio Tinto, said the study raised serious concerns about the future of Australia's black coal industry if reform did not take place. "There is a hell of a scope for improvement," he added.

The findings by Tasman Asia Pacific from 27 mine operations in Australia, Asia and the US point in particular to poor labour productivity. It says shift patterns in Australian coal mines cause almost double the level of idle time than in US mines, where longer shifts lead to fewer change-overs. The industry in Australia has also been hurt hy disputes – last year the number of days lost was 45 times the rate of all other industries.

Rio Tinto said it would conduct a secret ballot on the terms of a collective agreement. It said that although the report was grim reading, it highlighted the necessity for change. "It should be good news if we can get change implemented in the coal industry, it should generate more investment and create more jobs," the company said.

John Maitland, president of the miners' union, dismissed the study as propaganda and said other companies in the coal industry were conducting their own benchmarking exercises.

Australia is the largest exporter of coal in the world, although it produces only 5 per cent of world output. Coal exports represent 8 per cent of the country's shipments. In 1996, some 138m tonnes were exported, generating sales of A$7.8bn. Its main competitors are the US, South Africa and Canada, although low-wage operations in China and Indonesia are also applying pressure.

Elizabeth Robinson, Sydney

■ EUROPEAN ALUMINIUM

Federation warns on energy tax

The European aluminium industry would be badly damaged if energy taxation was introduced at the rates proposed hy the European Commission warned John Speirs, president of the UK Aluminium Federation (Alfed), last night. Aluminium smelting in the UK would have to close down with the loss of 1,300 direct and 5,000 indirect jobs. There would be a loss of 238,000 tonnes of annual primary aluminium production at four plants In Scotland, Wales and Northumberland and a balance of payments deficit of £238m for the UK economy.

This was the key message the federation would be communicating to UK members of the European parliament in two weeks time, Mr Speirs said at Alfed's annual dinner. It would argue that the aluminium industry should be exempt from any energy taxation, he said.

In a briefing paper, the federation suggests the EU aluminium industry already bears a high cost for environmental protection equipment in order to comply with legislation which is generally the most stringent in the world. "Very efficient UK smelters would close and inefficient polluting smelters in other parts of the world would flourish. The net result would be a worse environmental situation on a global scale."

Kenneth Gooding

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1565-6	1594-5
Previous	1576-77	1604-05
High/low		1602/1589
AM Official	1565-66	1594-95
Kerb close		1596-7
Open int.	223,827	
Total daily turnover	114,725	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1440-45	1462-3
Previous	1430-35	1455-60
High/low		1468/1455
AM Official	1435-40	1458-60
Kerb close		1460-64
Open int.	5,149	
Total daily turnover	2,823	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	612.5-3.5	625-6
Previous	598-99	611-12
High/low		629/613
AM Official	606-7	618-9
Kerb close		626-7
Open int.	29,398	
Total daily turnover	6,586	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6390-400	6460-90
Previous	6360-70	6450-55
High/low		6500/6430
AM Official	6350-55	6435-40
Kerb close		6430-35
Open int.	54,461	
Total daily turnover	19,416	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5425-35	5450-55
Previous	53675-75	5410-15
High/low		5500/5430
AM Official	5415-25	5440-50
Kerb close		5450-55
Open int.	15,975	
Total daily turnover	7,295	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1254-5	1275-6
Previous	1250-51	1270-71
High/low		1281/1273
AM Official	1254-54.5	1275.5-76
Kerb close		1274-5
Open int.	79,777	
Total daily turnover	18,061	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2084-5	2106-7
Previous	2069-70	2084.5-85.5
High/low	2068	2108/2081
AM Official	2065-66	2089-90
Kerb close		2101-2
Open int.	146,492	
Total daily turnover	52,672	

■ LME AM Official £/$ rate: 1.6314

LME Closing £/$ rate: 1.6350

Spot: 1.6341 3 mths: 1.6282 6 mths: 1.6231 9 mths: 1.6181

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	94.40	+0.40	95.70	93.70	259	644
Nov	94.80	+0.35	95.00	94.00	202	2,509
Dec	95.35	+0.45	95.90	94.15	15,714	27,758
Jan	95.55	+0.35	96.00	95.75	96	1,076
Feb	95.65	+0.45	96.00	95.70	29	1,166
Mar	95.75	+0.45	96.20	95.00	686	6,782
Total						

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	322.20-322.60		
Opening	322.60-322.90		
Morning fix	322.70	198.097	479.210
Afternoon fix	322.45	197.217	475.872
Day's High	-		
Day's Low	-		
Previous close	323.00-323.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.90	6 months	3.14
2 months	2.90	12 months	3.28
3 months	2.89		

Silver Fix	p/troy oz.	US cts equiv.
Spot	304.45	497.00
3 months	307.90	500.75
6 months	311.10	504.30
1 year	317.50	511.70

Gold Coins	$ price	£ equiv.
Krugerrand	327-329	200-202
Maple Leaf	-	-
New Sovereign	76-78	46-48

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	322.1	-0.2	322.7	322.7	14	127
Nov	322.5	-0.3	-	-	-	1
Dec	323.6	-0.3	325.0	323.1	19,494	81,243
Feb	325.3	-0.2	326.7	324.8	1,958	27,132
Apr	327.1	-0.2	328.3	326.5	25	6,014
Jun	329.2	-0.2	330.2	329.0	918	10,216
Total					22,589	176,223

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	420.7	-2.8	423.0	423.0	8	150
Jan	421.2	-4.3	426.0	417.5	1,013	12,956
Apr	416.7	-4.3	421.0	417.0	-	944
Jul	413.2	-4.3	-	-	1	21
Total					1,018	14,071

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	201.50	-	203.50	199.50	906	3,799
Mar	198.50	-	202.50	198.00	10	657
Jun	195.00	-	-	-	1	111
Sep	189.00	-	-	-	-	2
Total					918	

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	500.3	+5.6	-	-	100	101
Nov	501.5	+5.5	-	-	-	1
Dec	503.3	+5.5	508.0	494.5	8,678	66,182
Jan	504.6	+5.5	-	-	5	20
Mar	509.4	+5.7	515.0	501.0	1,131	19,508
May	512.2	+5.8	517.0	504.0	1,723	2,887
Total					9,813	99,037

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	21.52	+0.66	21.57	20.83	41,710	111,6k
Jan	21.52	+0.62	21.54	20.93	11,585	52,959
Feb	21.43	+0.58	21.45	21.04	3,562	29,578
Mar	21.34	+0.56	21.35	21.00	2,231	18,498
Apr	21.15	+0.44	21.15	20.90	1,256	14,067
May	21.06	+0.42	21.06	20.79	1,394	13,116
Total					98,488	402,058

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	20.25	+0.50	20.39	19.91	15,498	72,242
Jan	20.24	+0.48	20.37	19.92	5,063	36,098
Feb	20.20	+0.50	20.20	19.88	498	14,318
Mar	20.03	+0.45	20.03	19.80	382	5,521
Apr	19.87	+0.42	19.87	19.65	541	3,405
May	19.73	+0.41	19.73	19.68	270	5,001
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	59.00	+1.36	59.15	57.64	14,142	31,050
Dec	59.65	+1.29	60.10	58.05	9,464	48,685
Jan	60.65	+1.34	60.70	59.80	2,414	22,567
Feb	60.80	+1.29	60.80	60.00	1,082	12,003
Mar	59.55	+0.79	59.75	59.25	445	8,427
Apr	58.00	+0.89	58.10	57.65	175	5,091
Total					28,388	141,425

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	182.00	+2.75	183.00	180.25	6,906	34,978
Dec	183.50	+2.75	184.00	181.75	2,729	20,329
Jan	184.50	+2.50	185.00	182.75	1,533	14,508
Feb	184.50	+2.50	184.75	182.75	385	7,765
Mar	182.25	+2.75	181.00	180.50	260	5,218
Apr	179.50	+2.75	178.00	178.00	301	2,308
Total					13,002	108,896

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	13.490	+0.190	13.490	13.350	250	1,200
Dec	15.730	-0.070	-	-	-	1,470
Total					275	12,388

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	3.580	+0.156	3.570	3.391	39,557	41,150
Dec	3.670	+0.176	3.680	3.500	17,911	46,599
Jan	3.605	+0.137	3.610	3.480	8,285	28,547
Feb	3.165	+0.105	3.170	3.070	2,583	21,590
Mar	2.795	+0.035	2.820	2.700	1,110	15,440
Apr	2.440	+0.010	2.460	2.425	564	6,653
Total					71,249	230,274

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	60.80	+1.72	61.00	58.70	12,222	24,805
Dec	60.40	+1.54	60.55	58.60	5,885	23,816
Jan	60.30	+1.42	60.50	59.25	1,348	16,432
Feb	60.70	+1.52	60.70	59.50	113	7,063
Mar	60.90	+1.17	60.90	60.90	659	5,407
Apr	62.95	+0.67	62.50	62.50	782	4,441
Total					22,842	84,556

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	84.00	+0.35	84.25	83.90	211	1,133
Jan	86.05	+0.40	86.20	85.90	57	3,312
Mar	88.00	+0.40	88.00	87.75	40	2,978
May	90.00	+0.40	90.00	89.95	70	2,128
Jul	92.00	+0.40	93.25	93.00	10	193
Total					378	9,742

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	374.00	-2	379.50	371.50	16,984	58,148
Mar	387.50	-1.5	391.50	384.75	5,187	27,755
May	394.25	-1	397.00	391.50	1,073	5,724
Jul	396.00	-	397.50	393.00	1,155	13,193
Sep	400.00	+0.5	390.00	390.00	11	89
Dec	408.50	-0.5	411.00	408.50	54	2,842
Total					24,453	107,878

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	293.75	+6.25	294.00	287.50	40,246	210,218
Mar	303.50	+6.5	304.00	297.00	11,559	97,135
May	309.50	+6.75	310.00	302.25	1,970	28,425
Jul	313.50	+6.75	313.75	306.50	3,089	37,240
Sep	300.75	+5	300.50	297.00	315	3,173
Dec	298.25	+4.75	299.25	293.25	3,700	24,482
Total					60,913	401,840

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	76.90	-	77.00	77.00	62	539
Jan	80.00	+0.10	80.00	80.00	75	1,226
Mar	82.40	-	-	-	-	391
May	84.25	-	-	-	-	23
Sep	83.00	-	-	-	-	6
Total					137	2,185

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	698.25	+3.5	704.50	694.50	37,791	70,957
Jan	704.75	+4.5	710.50	697.50	12,297	46,274
Mar	713.25	+4.75	718.50	709.00	4,033	19,961
May	720.75	+7	724.50	713.75	1,399	14,930
Jul	727.50	+6.75	731.50	723.00	1,904	13,194
Aug	723.00	+6.5	728.00	722.00	12	478
Total					57,720	172,832

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	24.95	+0.35	24.90	24.84	484	399
Dec	25.27	+0.37	25.40	24.87	8,989	56,095
Jan	25.44	+0.32	25.57	25.20	1,931	22,860
Mar	25.60	+0.29	25.75	25.51	1,106	11,704
May	25.77	+0.37	25.80	25.60	931	7,663
Jul	25.80	+0.28	25.95	25.70	280	8,192
Total					14,802	108,529

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	227.2	+2	227.5	225.0	2,517	771
Dec	223.1	+0.3	226.0	222.5	13,172	45,141
Jan	222.2	-	225.3	222.0	2,777	21,042
Mar	220.4	+1	222.8	220.2	1,251	19,445
May	219.5	+0.9	222.0	219.5	1,712	15,935
Jul	221.7	+1.3	223.7	221.8	694	11,020
Total					23,885	119,485

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	32.0	+2.0	-	-	-	6
Mar	94.0	+3.0	-	-	-	-
Apr	119.0	+3.0	120.0	118.0	72	1,128
May	129.0	+3.0	-	-	-	22
Jun	139.0	+3.0	-	-	-	-
Total					72	1,156

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	1325	-5	1330	1322	34	819
Nov	1405	-	1415	1392	86	813
Dec	1430	-	1430	1430	12	101
Jan	1430	-10	1430	1430	22	640
Apr	1450	-	1450	1440	20	317
Total					185	2,760

	Close	Prev
BFI	1339	1336

PULP AND PAPER

■ PULPEX OMLX ($6; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	599.00	+1.00	599.00	598.00	40	325
Total						

FUTURES DATA

All futures data supplied by CMS.

Minor metals from Metal Bulletin

European free market, $ per lb in warehouse, unless otherwise stated (brackets where changed). **Antimony:** 99.65%, $ per tonne, 1,850-1,920 (1,860-1,920). **Bismuth:** min. 99.99%, tonne lots 3.30-3.50. **Cadmium:** min. 99.95%, cents a pound, 40.00-50.00. **Cobalt:** MB free market, min. 99.8%, 23.00-23.60; min. 99.3%, 17.50-18.30 (17.60-18.50). **Mercury:** min. 99.99%, $ per 76 lb flask, 140-150. **Molybdenum:** 3.80-4.00 (4.10-4.25). **Selenium:** min 99.5%, 2.00-3.00. **Tungsten ore:** standard min. 65%, $ per tonne unit (10kg) WO_3, CIF, 40-45. **Vanadium:** min. 98%, CIF, 4.12-4.22 (4.09-4.12). **Uranium:** Nuexco unrestricted exchange value, 9.20.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1066	-10	1070	1057	3,274	46,942
Mar	1092	-10	1097	1084	4,586	52,175
May	1111	-9	1116	1106	509	23,679
Jul	1129	-9	1136	1125	699	8,993
Sep	1146	-10	1150	1140	475	18,866
Dec	1158	-9	1162	1154	1,055	20,232
Total					12,170	191,531

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1593	-6	1612	1589	12,537	36,589
Mar	1631	-8	1648	1626	4,473	27,636
May	1651	-8	1669	1650	1,251	12,682
Jul	1671	-8	1679	1674	206	3,833
Sep	1691	-8	1696	1693	20	4,784
Dec	1710	-8	1717	1713	139	9,024
Total					18,767	105,898

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Oct 21		
Daily	1253.80	1274.16

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1500	+55	1501	1460	1,432	10,055
Jan	1513	+55	1515	1475	3,589	22,147
Mar	1520	+50	1520	1485	958	6,906
May	1527	+49	1522	1496	397	1,612
Jul	1535	+47	1534	1521	54	507
Sep	1545	+47	-	-	-	225
Total					6,430	41,492

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	150.20	-	152.50	149.75	3,620	11,834
Mar	140.00	-0.50	141.25	139.50	1,414	8,049
May	136.40	-0.60	138.00	136.25	283	2,433
Jul	133.00	-1.00	134.75	133.00	183	2,358
Sep	129.50	-0.25	131.00	129.50	88	762
Dec	126.05	+0.30	127.00	126.00	57	561
Total					5,636	25,907

■ COFFEE (ICO) (US cents/pound)

Oct 21	Price	Prev. day
Comp. daily	114.85	115.82
15 day average	124.20	124.91

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	300.6	-1.1	300.6	300.2	170	9,857
Mar	306.8	-1.0	306.6	306.2	166	16,157
May	311.7	-1.1	311.5	311.5	50	2,963
Aug	315.0	-1.8	315.2	315.0	12	2,264
Oct	312.5	-0.8	314.0	314.0	2	3,027
Dec	315.2	-1.1	315.0	315.0	20	124
Total					3,146	35,224

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	11.73	-0.01	11.79	11.71	8,735	88,150
May	11.75	-	11.79	11.71	1,168	25,311
Jul	11.63	-0.02	11.66	11.60	737	18,107
Oct	11.52	-0.09	11.59	11.49	906	17,313
Mar	11.47	-0.05	11.52	11.43	596	4,469
May	11.45	-0.04	11.45	11.40	130	343
Total					10,319	154,854

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	72.35	+0.17	72.75	71.85	14,426	49,266
Mar	73.89	+0.18	74.00	73.25	2,111	16,895
May	74.58	+0.17	74.85	74.15	593	8,742
Jul	75.37	+0.16	75.70	75.00	480	8,229
Oct	76.28	-0.17	76.50	76.30	28	810
Dec	76.45	-0.10	76.55	76.25	1,911	8,630
Total					19,530	92,683

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	69.85	+0.75	70.10	68.85	878	10,674
Jan	73.10	+0.70	73.40	72.00	1,221	18,511
Mar	76.40	+0.85	76.65	75.50	282	9,554
May	79.50	+0.85	79.60	78.85	19	2,253
Jul	82.50	+0.85	-	-	27	1,031
Sep	85.50	+0.85	-	-	70	388
Total					2,413	40,655

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Oct 22	Oct 21	month ago	year ago
1848.2	1849.8	1899.2	1860.0

■ CRB Futures (Base: 1967 = 100)

Oct 21	Oct 20	month ago	year ago
243.77	243.29	-	-

■ GSCI Spot (Base: 1970 = 100)

Oct 21	Oct 20	month ago	year ago
206.88	206.56	197.83	211.08

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-25	to	742,450
Aluminium alloy	+800	to	48,580
Copper	-26	to	337,125
Lead	-375	to	118,425
Nickel	+12	to	64,698
Zinc	+1,825	to	457,900
Tin	-400	to	9,970

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	69.950	+0.700	69.950	69.050	2,472	1,238
Dec	67.475	+0.825	67.500	66.625	14,216	41,079
Feb	69.125	+0.375	69.200	68.600	4,380	20,884
Apr	72.800	+0.175	72.775	72.300	1,726	13,428
Jun	70.450	+0.350	70.525	70.000	1,057	9,389
Aug	70.300	+0.300	70.400	70.050	339	2,898
Total					24,275	88,997

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	60.575	+0.400	60.950	60.300	3,939	20,603
Feb	61.275	+0.200	61.750	61.200	1,830	8,855
Apr	58.775	+0.250	59.300	58.750	551	3,941
Jun	66.100	+0.200	66.400	65.750	199	1,899
Jul	64.500	+0.350	64.800	64.200	11	957
Aug	63.600	+0.300	63.600	63.250	28	230
Total					6,543	36,982

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	63.600	+1.000	64.250	62.800	1,996	6,688
Mar	63.475	+1.175	63.750	62.300	226	907
May	63.500	+0.800	64.300	63.200	66	213
Jul	64.500	+0.800	64.800	63.900	34	130
Aug	62.325	+1.450	63.000	62.300	1	13
Total					2,322	7,973

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Dec	Mar	Dec	Mar
1575	100	133	9	22
1600	35	71	42	58
1625	7	32	114	117
■ COPPER (Grade A) LME	**Dec**	**Mar**	**Dec**	**Mar**
2000	122	152	23	54
2100	61	98	62	97
2200	25	59	125	156
■ COFFEE LIFFE	**Jan**	**Mar**	**Jan**	**Mar**
1550	80	100	97	130
1600	45	82	132	162
1650	34	68	171	198
■ COCOA LIFFE	**Dec**	**Mar**	**Dec**	**Mar**
1100	19	61	53	69
1125	12	50	71	83
1150	9	41	92	99
■ BRENT CRUDE IPE	**Nov**	**Dec**	**Nov**	**Dec**
1950	-	-	25	-
2000	77	106	-	74
2050	49	78	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$19.31-9.37w	+0.465
Brent Blend (dated)	$19.87-9.89	+0.55
Brent Blend (Dec)	$20.30-0.32	+0.50
W.T.I.	$21.43-1.47w	+0.60

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$210-212	+2
Gas Oil	$183-186	+2.5
Heavy Fuel Oil	$101-103	+1
Naphtha	$194-195	+1
Jet fuel	$200-201	+3
Diesel	$192-195	+2.5

■ NATURAL GAS (Pence/therm)

Bacton (Nov)	13.40-13.50	+0.075

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

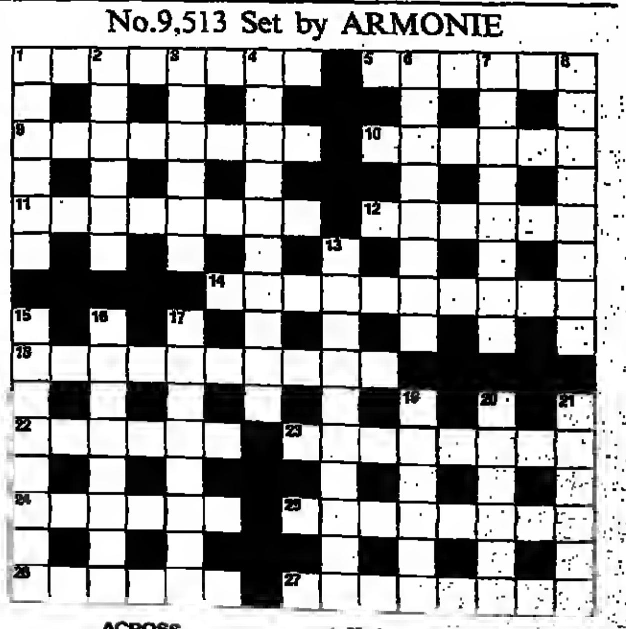
Gold (per troy oz)♣	$322.40	-0.85
Silver (per troy oz)♣	497.00c	+1.00
Platinum (per troy oz.)	$422.00	-2.50
Palladium (per troy oz.)	$202.50	-4.50
Copper	100.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	18.09r	
Tin (New York)	257.5	+1.00
Cattle (live weight)	94.52p	-0.73*
Sheep (live weight)	101.05p	-5.82*
Pigs (live weight)†	74.59p	-1.69*
Lon. day sugar (raw)	$271.60	-4.60
Lon. day sugar (wte)	$295.20	-1.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	57.00p	
Rubber (Dec)♥	57.00p	
Rubber (KL RSS No1)	283.0z	+1.00
Coconut Oil (Phil)§	600.0z	-12.5
Palm Oil (Malay.)§	515.0z	
Copra (Phil)§	$410.0	
Soyabeans (US)	210.0	
Cotton Outlook'A' index	77.50c	
Wooltops (64s Super)	428p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Sep/Oct. z Oct/Nov. ♠ Dec. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,924 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,513 Set by ARMONIE



ACROSS

1 Report finding second pirate in river (8)
5 The curse of an ancient city (6)
9 Former president's authorised to be outspoken (8)
10 Shelter for a year in a hovel (6)
11 Disciplinarian catching one in fair trap (8)
12 Rage noticed when touring Poland (6)
14 Rush round the street where unscrupulous riders might be (5,5)
18 Left crew cuddling redhead? Exactly! (5,5)
22 It holds new, light mail container (2-4)
23 Poles arrest modern trollop (8)
24 Topers getting wrecked quickly (6)
25 Meat in a barrow is slipping away (8)
26 Rested fitfully in place of solitude (6)
27 Animal is stuffed with prime, oxygen resistant material (8)

DOWN

1 Imagined cooked meat sustained doctor (6)
2 European accepting riding is magnificent (6)
3 Cultivatin' fruit (6)
4 Union supporter trips in British Museum. Help is needed (10)
6 He holds large instrument which may be played in the garden (8)
7 Missile covered in report (8)
8 Propose one supporting ministry in memo (6)
13 Permits to tour the auditorium on first of November (3-7)
15 Employers' leader [illegible] having been fitted [illegible] (8)
16 Note anxiety in teacher (8)
17 A vessel does, when about to tilt (8)
19 A band's outing in Kent (6)
20 Posh student staying in holiday development (6)
21 Conductors finding [illegible] answer involves a [illegible]

Solution 9,512

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

Newport Investment Management

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd

Sarasin Funds Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

Lazard Investment Funds Ltd - Contd.

Scottish Value Management (Ireland) Ltd (u)

Citi Investment Fund (Ireland)

Citizens Investment Trust Mngt Company

CoreStates Fund Management (Ireland) Ltd

Daiwa Europe Fund Mgrs Ireland Ltd

Singer & Friedlander Inv Funds Ltd (u)

Daiwa Europe Fund Mgrs Ireland Ltd - Contd.

Dragon Korea Fund Plc

Dresdner Kleinwort Benson Int Mgt Services Ltd

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Professional Investment Consultants

Royal Life International

Scottish Equitable International SA

Scottish Mutual International Plc

Scottish Provident Intl Life Assc Ltd

Sun Life International (IOM) Ltd

OTHER OFFSHORE FUNDS

[illegible]

● MANAGED FUNDS NOTES

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Cont.

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Cont.

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£23½	—	*£27¼	£20¼	1,880	3.1	◆
Barlow	♣†	£7¼	+⅛	£9⅞	£5¼	1,452	2.0	15.3
Gold Flds Prop R		103	-1	107	122	15.8	5.5	12.1
SA Brews		£17¾	+⅛	£20¾	£13⅛	5,280	2.1	◆
Standard Bank		£29¾	+¼	£30	£21	2,514	1.9	—
Tiger Oats	†	1015	-22	1100	790	1,234	1.8	20.0
Tongaat-Hulett		753	—	780	678¼	731.2	2.4	◆

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves marked † in the trading volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ◆ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ◆ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. q Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. s Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1996-97. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1997. K Yield based on prospectus or other official estimates for 1996. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. R Dividend is paid in whole or part as a FID (Foreign Income Dividend). S Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £3425 a year for each security shown, subject to the Editor's discretion.

♣ FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT4936. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Comprehensive 16-18 page report available on this company, containing key news stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements.
Company Focus (FT news) £8.45.
Focus Plus (FT and Investors Chronicle news) £10.95.
To order, call 0121 200 4678.
Reports published by ShareFinder.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.
Calls are charged at 50p per minute at all times.
An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.
All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request.
Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

HK worries send tremors across UK equities

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

An early promising performance by leaders on the London equity market was reversed yesterday. The market was damaged by the prolonged weakness of the Hong Kong stock market and continuing uncertainty about the UK's approach to European Monetary Union.

The slide was generally confined to the leaders, however. The FTSE SmallCap index put in another sound showing, hitting an all-time intra-day high in mid-morning, before slipping back.

The market's second-liners, represented by the FTSE 250 index, were never really troubled and edged higher during the morning before coming off to close narrowly lower on balance as the market drew to a close.

Hong Kong's latest slide – it dropped another 6.2 per cent yesterday to extend the fall over the past three sessions to 15 per cent – took some time to affect a market initially lifted by Wall Street's scintillating performance overnight. The Dow Jones Industrial Average shot up 139 points on Tuesday.

However, Wall Street retreated heavily yesterday, and posted a 65 points plus fall within an hour of London's close.

The sudden change in sentiment was a shock to traders, who were just getting to grips with the new order-driven trading system introduced on Monday.

"Everything was going fine, and suddenly we had to cope with a flurry of sell orders, which included some slightly irresponsibly incorrect numbers and which caused lots of problems, disturbing market sentiment," said one dealer.

News that China Telecom's debut on Wall Street was disappointing, kicking off at a discount to its issue price, caused further ripples of unease across London, which expects the shares to have a difficult start in Hong Kong this morning.

Steep afternoon declines in the market were in stark contrast to the morning session, when share prices across European markets motored ahead.

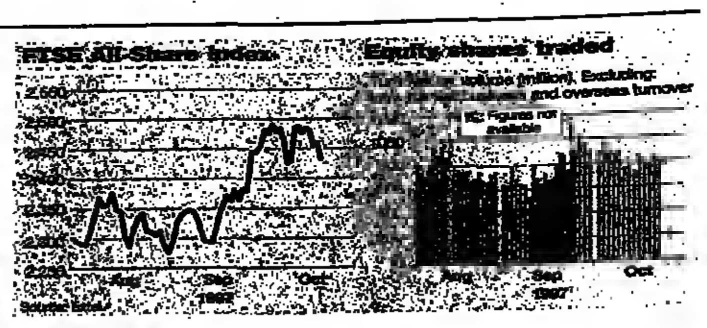
The FTSE 100 index closed the session a net 77.1 down at 5,148.8, having dropped more than 100 points at worst, in mid-afternoon, when Wall Street was enduring some heavy selling.

The FTSE 250 settled 2.0 off at 4,916.6, having reached a session best of 4,933.3 in mid-morning, while the FTSE SmallCap closed 3.3 ahead at 2,405.4, having hit an intra-day peak of 2,407.4.

Early trading was encouraged by a firm gilts market, after a bigger than expected fall in retail sales last month.

Sales dropped 1.9 per cent, further than the consensus forecast of 0.4 per cent, itself expected to calm fears that UK interest rates may be lifted in the next couple of months.

Hong Kong-induced nerves drove HSBC, Cable & Wireless and Standard Chartered sharply lower. Falls in those three stocks, the most Hong Kong sensitive in the market, accounted for a quarter of the fall in the FTSE 100. Turnover in equities expanded to 801.8m shares, with non-FTSE 100 stocks accounting for 51 per cent of the total.



Indices and ratios

FTSE 100	5148.8	−77.1	FT 30	3408.6	−7.5
FTSE 250	4916.6	−2.0	FTSE Non-Fins p/e	20.57	20.73
FTSE 350	2487.7	−30.2	FTSE100 Fut Dec	5164.0	−101.0
FTSE All-Share	2433.62	−27.36	10 yr Gilt yield	6.68	6.68
FTSE All-Share yield	3.20	3.17	Long gilt/equity yld ratio	2.09	2.11

Best performing sectors		Worst performing sectors	
1 Health Care	+2.8	1 Extractive Industries	−3.8
2 Life Assurance	+0.9	2 Insurance	−2.7
3 Transport	+0.6	3 Pharmaceuticals	−2.4
4 Food Producers	+0.5	4 Banks: Retail	−2.4
5 Gas Distribution	+0.4	5 Oil: Integrated	−1.9

Double hit for C & W

There was no hiding place for Cable & Wireless as concerns over fresh turmoil in the Hong Kong market – which yesterday fell by 6 per cent – sent shares in the UK group tumbling.

Cable & Wireless has a 53 per cent stake in Hong Kong Telecom, which last year contributed around 62 per cent of the group's operating profits.

Sentiment was further weakened by the initial poor performance of China Telecom, which came to the market yesterday and whose American Depository Receipts opened below their offer price on the New York market.

The stock, which in July hit its all-time high of 616p, yesterday lost another 27 or 5.2 per cent to 490p, in busy trade of 12m.

James Ross at ABN Amro Hoare Govett, the group's broker, said: "I don't think this fall is justified. Hong Kong Telecom is a different business to China Telecom in terms of its earnings mix, and it is valued on a more conservative basis. I think the shares look good value at these depressed levels."

Cable & Wireless was not alone among Hong Kong-related stocks on the slide. Banking group HSBC, the biggest company by capitalisation on the London market, was another casualty of the concern over the far eastern markets. The Hong Kong dollar shares fell 98 to £16.80 to make it the worst performer in the FTSE 100. The shares have now fallen by more than 20 per cent since hitting their peak of £22.53 in August.

Also down was Standard Chartered where the shares declined 30 to 716p.

The sharp falls in the three Hong Kong-sensitive stocks accounted for 19.5 Footsie points, or 25 per cent of the day's decline on the leading index.

Carlton Communications headed the Footsie performance chart as investors began to anticipate a pre-results rally.

The shares have been under pressure since the summer, partly as a result of the arrival of Channel 5, which has diluted advertising revenues.

By yesterday they had underperformed the FTSE All Share index by 20 per cent over the past 12 months and also missed the recent rally of its sector rivals.

However, Carlton told its story to fund managers at a wide-ranging conference hosted by Panmure Gordon late last week. And it discussed British Digital Broadcasting, the commercial digital terrestrial television company due to launch at least 15 television channels next year. The European Commission is expected to give its final approval for the BDB licence over the next few weeks.

Also, Carlton is the only Footsie media company to report before Christmas and has tended to have a run-up ahead of the figures. The shares closed 22 higher at 534p.

A profit warning from Boeing led to mark-downs across the UK engineering sector in what analysts described as a kneejerk reaction that hit leading stocks exposed to the aerospace industry.

Rolls-Royce fell 10 to 225½p in brisk volume of 5m on fears for its engine orders.

Other sufferers included TI, off 29 before recovering to close down 14 at 594p. BAe was down 23 to £16.60 in volume of 1.5m and Smiths Industries 25 to 885p.

However, the mark-downs were sector-wide rather than specific to individual shares and there were suggestions that further analysis would bring some alteration to profit forecasts that would, in turn, see some shares rebound.

Barnaby Wiener, analyst at Merrill Lynch, said: "British Aerospace may well benefit from the troubles at Boeing. But Rolls-Royce may be suffering the same problems as Boeing."

One of the bigger falls in the Footsie was sustained by RMC, which dropped 80 before recovering to close off 43 at 907p. The price showed extreme volatility during the day on very thin volume. However, there was said to be no fundamental news driving the stock.

Elsewhere in building-related stocks, Wolseley suffered profit-taking after its strong results this week. Although analysts continued to make positive comments on the company, the stock spent much of the day in negative territory before recovering to close up 7 at 522p in volume of less than 1m traded.

Yesterday, Howard Proctor at SocGen upgraded his stance on the stock from "sell" to "reduce". He told clients: "With earnings growth set to be no better than pedestrian from here on, the 20 per cent premium within the sector looks stretched." He has upgraded his current year forecast by £6m to £279m.

Gary Hobbs at NatWest has told clients the stock stands at a 10 per cent discount to the market for 1999, "a rating which fails to reflect the company's inherent quality".

Mirror Group surprised the market with revised terms for its bid to acquire Midland Independent Newspapers, the regional group that owns the Birmingham Post.

The cash offer remained stable at 210p plus dividends but the partial paper alternative of one Mirror share for one Midland was raised to 11 Mirror shares for 10 Midland. Mirror was immediately marked down by 7½ to 212p while Midland lifted 7 to 217½p.

WPP, the world's largest advertising group, consolidated earlier strength as it announced strong third-quarter figures which reflected a 12 per cent revenue boost before currency shifts and a 4 per cent gain afterwards. On Monday, the shares rose sharply after it was announced that Scudder Stevens & Clark, the US fund manager, had bought a 4 per cent stake. Yesterday, they were steady at 288½p.

Encouraging signals from the industry's principal US conference helped Scottish Hydro to gain 6½ at 452p.

Centrica held firm as the stock benefited from a bullish recommendation by NatWest Securities.

NatWest said Centrica should be able to return up to £500m to shareholders next year in a buy-back or special dividend. And, if the cash was paid out as dividend, it would be worth up to 12p a share. The broker raised its share valuation from a maximum 98p to 123p. The shares hardened to 88p.

BG attracted income-fund buying partly because of its resilience to strong shifts of sterling against the D-Mark, and the recent resolution of its regulatory worries. The shares hardened a penny to 276½p.

Norwich Union gained 5 to 350p when it said new life regular premiums for the nine months to September rose 16 per cent to £81m from £70m a year ago.

FT 30 INDEX

	Oct 22	Oct 21	Oct 20	Oct 17	Oct 16	Yr ago	*High	*Low
FT 30	3408.6	3418.1	3411.2	3423.2	3430.3	2831.3	3430.3	2688.8
Ord. div. yield	3.38	3.33	3.32	3.31	3.29	4.01	4.22	3.29
P/E ratio net	21.85	22.10	22.14	22.25	22.33	17.19	22.39	15.80
P/E ratio nil	21.55	21.80	21.84	21.94	22.02	17.11	22.02	15.71

FT 30 since compilation: high 3430.3 16/10/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3415.6	3430.7	3426.3	3415.8	3413.5	3396.5	3398.9	3378.4	3373.0	3440.3	3357.0

	Oct 22	Oct 21	Oct 20	Oct 17	Oct 16	Yr ago
SEAQ bargains	59,854	49,174	56,447	48,742	48,010	35,494
Equity turnover (£m)†	–	NA	NA	2888.8	2969.7	1830.2
Equity bargains†	–	NA	NA	48,445	47,197	29,223
Shares traded (m)†	–	NA	NA	807.5	836.6	506.8

†Excluding intra-market and overseas turnover but including Crest turnover.
 *For 1997.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	732	Total Highs	144	Total contracts	22,943
Total Falls	857	Total Lows	112	Calls	14,044
Same	1,462			Puts	8,899

Oct 22 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	5294.0	5164.0	-101.0	5306.0	5147.0	13000	72391
Mar		5212.5	-101.0			0	2196

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		4975.0	+35.0			0	8534

■ FTSE 100 INDEX OPTION (LIFFE) (*5162) £10 per full index point

	4950 C	4950 P	5000 C	5000 P	5050 C	5050 P	5100 C	5100 P	5150 C	5150 P	5200 C	5200 P	5250 C	5250 P	5300 C	5300 P
Nov	256	63½	219½	76½	184½	91½	153	112½	122½	134	97	161½	76	192	57	227
Dec	318½	100½	281	115	248½	134½	220	156	190½	176	160½	200½	136½	230	117½	261
Jan	361½	127	316½	143	287	163½	257½	184½	228	206	199	229	177½	258½	158½	290
Feb	401½	148	370	167	340½	188	311	210	282	232½	252½	258½	228	285½	207	316½
Jun†			488	228½			407	265½			346½	303			300½	364

Calls 4,233 Puts 2,881

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4975	5025	5075	5125	5175	5225	5275	5325
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 2,281 Puts 4,255 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*	F.P.	431.1	180½	152½	Aggreko	165		W3.5	2.0	2.7	23.1
–	F.P.	0.74	17½	16½	†Buckland Inv	17½		–	–	–	–
–	F.P.	0.08	12	6	†Buckland Inv Wt	10		–	–	–	–
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70	F.P.	28.1	63½	58	Northern Forest	62		–	–	–	–
§245	F.P.	182.5	288	245	BHL Group	288	+8½	LW4.5	–	2.0	–
§148	F.P.	8.78	192½	162½	†Solitaire	192½	+2	R8.0	1.2	3.9	14.3
§110	F.P.	57.4	117½	111½	Xpas	112½		–	–	–	–

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Oct 21	% chg on day	Oct 20	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	1450.92	+1.4	1431.49	1881.94	2.84	–	1886.11	1279.14
■ Regional Indices								
Africa (15)	1441.56	–1.1	1457.88	2421.15	5.26	24.01	2502.51	1224.90
Australasia (6)	1505.74	+0.8	1494.25	2209.38	2.87	17.79	2218.00	1336.10
North America (12)	1463.51	+2.3	1431.16	1686.34	0.92	34.37	1839.77	1244.23

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Oct 22	Day's chge%	Oct 21	Oct 20	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5148.8	−1.5	5225.9	5211.0	4028.4	3.17	2.80	2.08	19.20	128.97	2215.45
FTSE 250	4916.6	—	4918.6	4908.5	4431.1	3.39	2.78	1.78	20.73	128.11	2072.27
FTSE 250 ex IT	4941.3	—	4942.4	4933.8	4467.5	3.51	2.87	1.82	19.83	133.03	2089.62
FTSE 350	2487.7	−1.2	2517.9	2511.1	2002.8	3.21	2.63	2.00	19.46	62.82	2186.79
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE All-Share	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Further information is available on http://www.ftse.com. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY OCTOBER 21 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY OCTOBER 20 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	225.83	-0.1	204.82	171.72	209.39	206.51	0.5	3.70	225.81	205.32	173.14	207.95	205.58	243.87	209.89	215.24
Austria (24)	207.08	0.4	187.80	157.61	192.18	192.12	1.2	1.71	206.18	187.48	158.10	189.89	189.83	213.59	175.14	182.17
Belgium (27)	244.24	0.1	221.50	185.89	226.67	221.62	0.8	3.12	244.08	221.89	187.11	224.73	219.84	261.11	219.71	219.84
Brazil (30)	308.59	2.3	279.86	234.87	286.39	624.72	2.3	1.17	301.83	274.31	231.32	277.83	610.79	322.44	178.94	188.55
Canada (123)	228.10	0.4	206.86	173.60	211.68	229.45	0.7	1.65	227.14	206.53	174.18	209.18	227.83	233.66	177.94	177.94
Denmark (32)	421.43	1.1	382.19	320.75	391.11	389.55	1.8	1.31	416.76	378.94	319.55	383.80	382.45	429.78	327.98	336.30
Finland (26)	347.39	2.3	315.04	264.39	322.39	389.53	3.1	1.60	339.63	308.81	260.41	312.77	377.93	349.43	216.01	220.75
France (84)	235.86	0.5	213.90	179.51	218.89	221.26	1.2	2.41	234.77	213.47	180.01	216.21	218.71	246.23	200.57	201.77
Germany (59)	228.99	1.6	207.67	174.28	212.52	212.52	2.4	1.35	225.34	204.90	172.78	207.52	207.52	243.87	179.31	180.82
Hong Kong, China (66)	421.18	-5.6	381.26	320.55	390.87	418.99	-5.5	6.78	446.09	405.61	342.04	410.81	443.51	580.08	421.18	469.43
Indonesia (27)	123.07	0.8	111.61	93.67	114.22	274.82	0.5	2.46	122.67	111.54	94.08	112.97	273.98	254.90	117.56	205.36
Ireland (17)	388.03	0.2	351.90	295.33	360.11	373.18	0.8	2.60	387.34	352.20	297.00	356.72	370.37	394.83	309.70	310.15
Italy (53)	113.08	0.9	102.55	86.06	104.94	147.02	1.6	1.62	112.04	101.87	85.91	103.18	144.74	115.27	75.44	78.03
Japan (484)	116.45	0.4	105.61	88.63	108.07	88.63	-0.3	0.90	115.99	105.46	88.93	106.81	88.93	143.36	107.57	143.11
Malaysia (107)	268.02	-1.8	243.07	203.99	248.74	344.25	-1.4	2.07	272.43	247.71	206.89	250.89	349.18	660.85	268.02	581.93
Mexico (27)	1901.98	1.1	1724.90	1447.59	1765.13	16057.07	1.0	1.51	1882.14	1711.37	1443.13	1733.31	15896.78	1901.98	1136.59	1220.72
Netherlands (19)	418.39	1.1	379.43	318.43	388.28	383.96	1.8	2.17	413.86	378.31	317.33	381.18	377.01	440.67	307.19	312.28
New Zealand (14)	94.78	0.8	85.93	72.12	87.94	78.80	1.4	3.89	94.03	85.50	72.10	86.59	77.72	96.47	83.03	94.35
Norway (41)	367.42	0.4	333.21	279.64	340.89	358.86	1.7	1.72	365.90	332.70	280.55	336.96	352.74	374.84	261.98	263.17
Philippines (22)	93.71	-1.6	84.98	71.32	86.97	159.99	-0.7	1.33	95.18	86.56	72.99	87.87	161.15	214.07	87.66	195.61
Singapore (42)	264.83	-2.0	240.00	201.41	245.59	192.26	-1.3	1.84	269.86	245.47	206.99	248.61	194.86	448.01	264.83	371.28
South Africa (43)	340.37	1.2	308.68	259.06	315.88	349.51	1.3	2.44	336.47	305.94	257.99	309.86	345.17	370.12	301.49	346.10
Spain (33)	258.91	1.8	234.81	187.06	240.28	295.37	2.8	2.28	254.43	231.35	195.09	234.31	287.95	277.33	186.28	188.30
Sweden (46)	507.18	0.4	459.96	386.01	470.69	577.18	1.4	1.80	505.38	459.53	387.50	465.42	568.03	538.94	390.36	398.97
Switzerland (33)	317.77	0.8	288.18	241.85	294.90	292.31	1.5	1.14	315.79	287.14	242.13	290.82	288.11	329.59	231.69	245.14
Thailand (39)	34.38	-3.6	31.18	26.16	31.90	51.50	-1.4	5.48	35.66	32.41	27.33	32.83	52.23	129.84	34.38	118.66
United Kingdom (213)	336.21	0.5	304.90	255.88	312.02	304.90	0.8	3.25	334.40	304.06	256.40	307.96	304.06	337.99	256.17	260.33
USA (834)	396.11	1.8	359.23	301.46	367.61	396.11	1.8	1.57	389.17	353.88	298.39	358.39	389.17	399.82	283.35	288.88
Americas (814)	362.37	1.7	328.63	275.80	336.30	305.27	1.7	1.56	356.25	323.92	273.15	328.08	300.07	365.75	259.48	264.26
Europe (712)	288.91	0.8	262.01	219.89	268.12	273.23	1.2	2.34	286.62	260.62	219.77	263.96	270.00	296.25	222.93	224.76
Nordic (150)	448.32	0.8	406.58	341.22	416.07	446.96	1.8	1.68	444.84	404.48	341.08	409.67	439.13	464.93	333.70	339.22
Pacific Basin (877)	129.24	-0.3	117.21	98.36	119.94	99.79	-0.8	1.47	129.88	117.92	99.43	119.43	100.63	160.96	127.18	168.95
Euro-Pacific (1589)	195.87	0.4	177.66	149.08	181.78	164.78	0.4	2.00	195.17	177.47	149.65	179.74	164.11	209.12	173.55	188.25
North America (757)	385.68	1.7	349.77	293.54	357.93	385.00	1.7	1.57	379.18	344.76	290.72	349.18	378.45	389.57	277.20	282.18
Europe Ex. UK (499)	257.42	0.9	233.45	195.92	238.90	249.59	1.7	1.61	255.00	231.86	195.52	234.83	245.33	267.07	198.96	200.84
Pacific Ex. Japan (393)	243.72	-2.8	221.03	185.49	226.19	229.15	-2.5	3.39	250.73	227.98	192.25	230.91	235.00	320.65	243.72	298.31
World Ex. US (1612)	201.10	0.4	182.38	153.06	186.63	172.61	0.5	1.98	200.29	182.11	153.57	184.45	171.61	212.89	176.94	188.16
World Ex. UK (2233)	256.81	1.1	232.90	195.45	238.33	230.24	1.2	1.60	253.90	230.88	194.68	233.62	227.49	262.69	211.18	215.77
World Ex. Japan (1962)	337.86	1.2	306.40	257.14	313.55	330.39	1.4	1.91	333.86	303.59	256.00	307.48	326.00	344.35	257.42	260.37
The World Index (2446)	263.57	1.1	239.03	200.60	244.61	237.03	1.1	1.77	260.75	237.09	199.93	240.13	234.42	268.47	216.15	219.60

 CONSTITUENT CHANGES WITH EFFECT 23/10/97: Deletions: Louisiana Land & Exploration (USA) and PWA Papierwerke (Germany). Latest prices were unavailable for this edition.

Emerging markets: IFC Investable indices

4 pm close October 22

NEW YORK STOCK EXCHANGE PRICES

1997 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- A - - B - - C - - D - - E - - F - - G - - H - - I - - J - - K - - L - - M - - N - - O - - P - Q - - R - - S - - T - - U - - V - - W - - X - Y - Z -

Price data supplied by Exel, part of FT-Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. ds-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ¶ Dealings suspended.

♣ FT Free Annual Reports Service

You can obtain the current annual reports and if available quarterly reports of any companies on the US exchanges with a ♣ symbol. To order reports ring International Access 1-804-320-8097, or give the names of the companies whose reports you want and fax your request to International Access 1-804-320-8135. Reports will be sent the next working day, subject to availability. You can also order online at http://www.icbsc.com/cgi-bin/nl.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Oct 21	Oct 20	Oct 17	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	8060.44	7921.44	7847.03	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.72	104.04	103.94	104.78 (31/7)	181.09 (14/4)	104.78 (31/7/97)	54.99 (1/10/81)
Transport	3388.33	3282.68	3254.43	3359.27 (15/10)	2222.07 (2/1)	3359.27 (15/10/97)	13.23 (8/7/32)
Utilities	247.82	245.36	242.29	245.52 (7/10)	209.47 (25/4)	258.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 8080.40 (7966.85) Low 7909.41 (7774.83) (Theoretical) Day's high 8064.61 (7924.88) Low 7921.93 (7815.80) (Actual)

Standard and Poors	Oct 21	Oct 20	Oct 17	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite	972.28	955.61	944.16	983.12 (7/10)	737.01 (2/1)	983.12 (7/10/97)	4.40 (1/6/32)
Industrials	1132.85	1114.53	1100.09	1146.82 (7/10)	865.42 (11/4)	1146.82 (7/10/97)	3.52 (30/6/32)
Financial	118.87	114.02	113.15	118.04 (7/10)	80.75 (2/1)	118.04 (7/10/97)	7.13 (4/9/74)
Others							
NYSE Comp.	510.19	502.26	498.57	514.21 (7/10)	389.47 (11/4)	514.21 (7/10/97)	4.64 (25/4/42)
Amex Comp.	712.36	706.58	700.88	721.98 (7/10)	541.20 (28/4)	721.98 (7/10/97)	524.20 (16/7/98)
NASDAQ Cmp	1712.54	1685.45	1668.85	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	458.93	453.85	449.29	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	123.38 (7/12/93)

RATIOS

	Oct 17	Oct 10	Oct 3	Year ago
Dow Jones Ind. Div. Yield	1.70	1.66	1.66	2.12
	Oct 15	Oct 8	Oct 1	Year ago
S & P Ind. Div. yield	1.47	1.46	1.46	1.92
S & P Ind. P/E ratio	25.95	26.16	25.72	23.13

US DATA

MARKET ACTIVITY

Volume (million)	Oct 21	Oct 20	Oct 17
NYSE	583.580	483.880	624.980
Amex	28.917	21.869	34.825
NASDAQ	800.810	694.743	934.348

NYSE	Oct 21	Oct 20	Oct 17
Issues Traded	3,393	3,379	3,398
Rises	1,946	1,876	809
Falls	906	1,005	2,324
Unchanged	541	498	584
New Highs	100	85	56
New Lows	28	32	53

NYSE TRADING ACTIVITY — Volume: 583,580,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
AT & T	11,526,700	40¾	+2¼
IBM	7,050,500	106¼	+7¼
Westinghse	6,968,300	29½	+1⅛
Compaq	6,382,700	73⅞	+2⅝
Cadence Dsg	6,204,100	52	–4
Philip Morris	5,578,500	41	+1
Endesa	5,535,300	10	–⅛
Sears Roebck	5,198,700	45	+⅛
ITT	4,865,800	73	–⅛
Starwood Ldg	4,075,700	58	+1⅛

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
CTS Corp	95¼	+9⅛	+10.74
Teleteof Corp	84½	+6⅛	+0.72
AES Corp	47	+3	+8.17
IBM	105¼	+7⅛	+7.85
Downs			
Terra Nitro	32	–5⅜	–13.85
Huaneng Int	21½	–2⅜	–11.34
Zeigler Coal	20¼	–2⅛	–9.75
Nina Telecom	100¾	–8	–7.62

NASDAQ TRADING ACTIVITY — Volume: 800,819,000

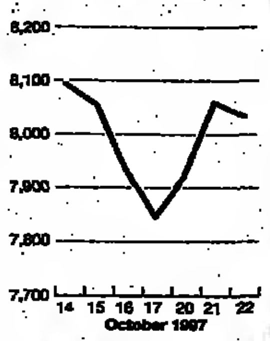
ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Noise Cancell	22,875,600	1⅞	+⅜
Intel	15,054,500	85⅝	+1
Microsoft	14,447,000	138⅜	+5⅜
Cityscape Fn	12,658,200	3	–2
Applied Matl	11,708,400	40	+⅛
Sun Microsys	10,687,400	39⅝	
Three Com	10,236,400	48⅛	–1
Cisco	8,522,800	84⅛	+2
Kia Tecsor	7,537,700	81⅞	+3⅛
Nat Energy	7,512,000	6	+⅛

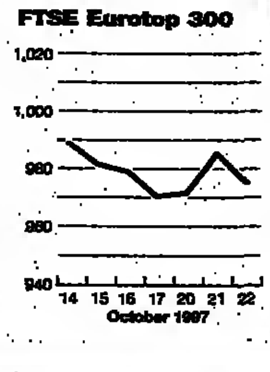
BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
8x8 Inc	10	+4⅛	+34.74
Ciris Sys	74⅝	+14⅛	+23.8
Eastern Env	25⅝	+4⅛	+22.62
N2K Inc	30⅜	+5⅜	+21.10
Downs			
Barrett Bus	12⅝	–3⅜	–22.9
Transact Tech	15	–2	–15.85
Electrgl Sci	22	–4	–15.2
Viasoft	43½	–7	–13.86

Dow Jones



FTSE Eurotop 300



JAPAN

FRANCE

GERMANY

UK

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	979.60	977.40	–2.05	980.35	976.50	61,250	190,758
Mar	990.60	988.25	–1.95	990.50	988.25	405	4,398

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	17350.0	17650.0	+440.0	17690.0	17270.0	22,429	167,566
Mar	17640.0	17640.0	+220.0	17640.0	17640.0	1	9,612

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	3023.0	2965.0	–31.0	3027.0	2964.0	16,057	27,217
Nov	3026.0	2973.0	–19.0	3031.5	2965.0	343	16,875

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	4228.5	4144.0	–57.0	4260.0	4139.0	25,282	60,813
Mar	4267.0	4182.5	–43.0	4294.0	4186.5	236	3,210

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	2580.05	250550	–29.50	2571.00	2500.50	11,190	14,273
Nov	2577.25	2519.25	–28.75	2582.25	2512.25	6,700	12,435

SOFFEX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Nov	5910.5	5796.0	–79.0	5930.0	5787.0	4,892	22,071

Open interest figures for previous day.

WORLD MARKETS AT A GLANCE

Country	Index	Oct 22	Oct 21	Oct 20	1997 High	1997 Low	Yield	P/E
Argentina	General	25732.98	25732.11	25417.10	25551.25 21/10	18237.37 2/1	2.94	21.1
Australia	All Ordinaries	2682.9	2650.7	2639.4	2779.20 25/9	2392.20 1/4	3.44	18.8
	All Mining	748.2	749.5	747.5	987.10 24/2	747.50 20/10		

Stocks jumped in late trading despite mixed responses 21 record low inflation figures.

Country	Index	Oct 22	Oct 21	Oct 20	1997 High	1997 Low	Yield	P/E
Hungary	Bux	8108.68	7968.76	7994.07	8493.80 6/8	4291.30 6/1	na	na

Hopes of foreign investors moving in on next month's Matav privatisation helped local sentiment.

Country	Index	Oct 22	Oct 21	Oct 20	1997 High	1997 Low	Yield	P/E
India	BSE Sens.	4092.70	4118.99	4154.84	4548.02 5/8	3225.24 2/1		
	Crisil 500	746.20	751.20	758.19	842.28 5/8	622.71 2/1	na	na

Political crisis in Uttar Pradesh and an expected slowdown in corporate earnings led shares lower.

Country	Index	Oct 22	Oct 21	Oct 20	1997 High	1997 Low	Yield	P/E
Poland	WIG	17792.5	17788.6	17873.2	19339.40 18/2	14421.80 6/1	1.36	12.3

Shares moved sideways as dealers warned that the market had hit a resistance level.

Country	Index	Oct 22	Oct 21	Oct 20	1997 High	1997 Low	Yield	P/E
Portugal	BVL 30	3627.36	3633.19	3612.75	3688.81 3/10	2185.57 2/1	1.65	25.8
	PSI 20	8456.12	8468.85	8423.55	8603.82 3/10	5152.34 2/1		

Shares tracked lower after early session buoyancy, heavily influenced by Wall Street.

NASDAQ NATIONAL MARKET

4 pm close October 22

NASDAQ NATIONAL MARKET

AMEX PRICES

4 pm close October 22

EASDAQ

FINANCIAL TIMES Thursday October 23 1997

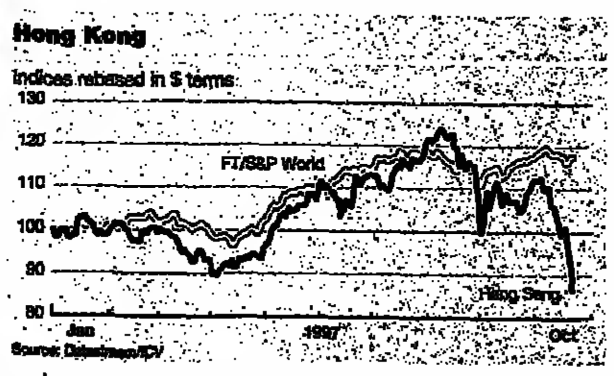
Asian markets continue to take a battering

WORLD OVERVIEW

By Simon Davies

Not even a 139 point *overnight rise* in the US's Dow Jones Industrial Average could spark a recovery in south-east Asia's battered stock markets, although it provided initial support in Europe.

Hong Kong was once again the biggest casualty, reflecting continuing fears over the impact of the rising short-term *interest* rates necessary to support the Hong Kong dollar. The Hang Seng *index fell* 765.33 to 11,637.77, leaving it down 23 per cent this month.



Hong Kong equities have been *likened* to a geared investment on the US interest rate cycle, since the Hong Kong dollar peg to tha US dollar meant companies could borrow at US rates and get Asian-style returns. However, pressure on the Hong Kong dollar pushed three-month interest rates 9 per cent higher than in the US last night. This is damaging for both the banking and property sectors, which make up the bulk of the Hang Seng index.

James Montier, global strategist at NatWest Markets, said: "There is a risk that the collapse becomes self-fulfilling. People sell their equities and take the money out of Hong Kong, which pushes up interest rates to support the currency, and that sparks a second wave *of selling in the* stock market."

Elsewhere in the region, tbe continning political uncertainty in Thailand and a disappointing Malaysian bndget continued to take their toll and economists are beginning to talk of outright recession in ths ASEAN region.

The KLSE composite index in Malaysia fell almost 4 per cent after the ringgit lost even more ground against the dollar. Shares in Indonesia and Singapore also continued to tumble. Mr Montier warned that several of the eastern European economies could also be vulnerable to the currency contagion *that has* dogged Asia's emerging markets.

However, north-east Asian markets saw a bounce. Japan's Nikkei 225 average registered its first rise in five days, gaining 3 per cent, while Sonth Korea's Kospi composite gained 6 per cent.

In Europe, markets responded favourably to the overnight *performance* in the US, but edged lower after New York's weaker opening. Strategists expect little knock-on effects from the Pacific rim, although product price deflation in Asia could be exported and damage competitors worldwide.

Nonetheless, Philip Isherwood, pan-European strategist at Kleinwort Benson, said: "If Hong Kong is imploding because of capital *flowing* out, that capital has got to go somewhere. The assumption has to be that it will prop up US asset prices, and it should follow through into Europe."

Dow slides on negative earnings

AMERICAS

It was a down morning on Wall Street, with shares in Boeing and Allied Signal falling more than 7 per cent after both companies surprised the market with negative releases, *writes John Labate in New York.*

The Dow Jones Industrial Average was 48.14 lower by early afternoon at 8,011.57, with Boeing and Allied Signal, both Dow stocks, doing most of the damage.

Allied Signal missed third-quarter earnings estimates for the first time in six years. Allied shares lost $3¾ to $40¼ on the news. Boeing warned that third-quarter figures, due later this week, would be hit by a charge brought on by production delays. Its shares tumbled 8 per cent or $4 3/16 to $49¾.

In contrast to these two, 3M got a morning boost from a Goldman Sachs upgrade after the company reported earnings one cent above expectations. 3M's shares rose $4 13/16 to $99¼.

Most sectors traded lower. The Standard & Poor's 500 index fell 3.98 to 968.32 while the Nasdaq composite index came off 4.14 to 1,708.40. The Russell 2000 index of small company shares showed greater resilience, easing by less than two points to 457.72.

After rising sharply on Tuesday, Netscape Communications lost $2 7/16 or more than 6 per cent to $37¾ after an analyst downgraded the stock. Microsoft, which led the technology sector higher on Tuesday, fell $1 11/16 to $136 13/16.

Banking shares moved lower as bond prices fell slightly. By midday the benchmark long bond was off 3/32, lifting the yield to 6.419 per cent.

Corestates Financial lost *more than 4 per cent* or $3 13/16 to $76¾ after Mellon Bank announced that it would not raise its $18bn bid for the company. Mellon's shares rose on the news, gaining $1 3/16 to $53 3/16.

Shares in telecoms company Bell Atlantic rose $2 3/16 to $84 15/16 on better than expected pre-merger earnings of $1.25 per share. US Airways lost $1¾ to $49¾ on news of third-quarter earnings and a plan to buy aircraft engines.

TORONTO ended the morning session little changed with steady gains for golds and selected leaders offset by profit-taking among the banks, which etreamed uniformly lower. At noon, the 300 composite index was down 3.27 at 7,134.00.

The rally among bank shares showed clear signs of running out of steam. "It's profit-taking time right now," said one broker. Toronto-Dominion Bank retreated 45 cents to C$49.80 and Bank of Montreal came off 60 cents to C$59.60.

Barrick Gold jumped 70 cents to C$32.50 after unveiling third-quarter results which scotched talk of sluggish output with a reaffirmation that the mining giant was on target to meet its production goals this year. Placer Dome added 75 cents to C$26.00.

Alcan Aluminium rose 40 cents to C$456.40 and Seagram gained 85 cents to C$51.75.

Mexico City slips

MEXICO CITY tracked Wall Street through most of the morning session, with the IPC index slipping 40.25 to 5,329.23 at midsession. Index heavyweight Telmex came off 20 centavos to 20.50 pesos as investors took a negative view of the telecom giant's weak third-quarter earnings. In contrast, media group TV Azteca posted strong earnings and the shares jumped 55 centavos to 42.35 pesos.

SAO PAULO was also dull in early trade. There was said to be signs of profit-taking after the recent rally which by the close on Tuesday had driven share prices up to a 59-session high. At midsession yesterday, the Bovespa index was off 157 or 1.2 per cent at 12,859.

SANTIAGO moved higher, helped by a rally for power group Enersis, up 3.00 pesos st 281.0 pesos. Tha IPSA index was up 1.35 or 1.1 per cent at 122.89 at midsession.

CARACAS pushed higher in what dealers described as thinnish trading volume. By midsession, the IBC index was 113.25 ahaad st 10,737.58.

Profit-taking hits Frankfurt

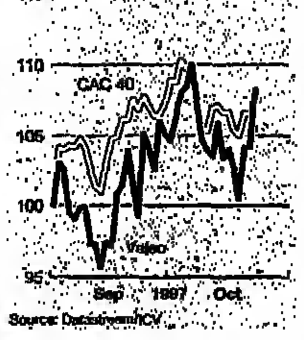
EUROPE

A bright start in FRANKFURT was quickly snuffed out as traders reflected that Tuesday's gains – when shares rose 2.5 per cent after better-than-expected inflation figures – might have been overdone.

The Ibis-indicated DAX index breached tbe 4,200 level at the opening, rising to a high of 4,235.88 after *comments by Otmar Issing*, the Bundesbank's chief economist, seemed to confirm *hopes* that the central bank would leave intereet rates unchanged today.

However, shares later fell back as dealers reflected that there was no fresh good news in the market, and the decline was accentuated by a weakening dollar. The index came off over lunchtime, ending down 47.61 at 4,124.86 in moderate volume.

SAP was in favour, rising DM20.20 to DM500 after the software company unveiled sparkling third-quarter figures and upped its sales forecast for the year as a whole. BZW lifted its share price target to DM640 from DM540.



Motor stocks were in the spotlight as Volkswagen posted early gains after reporting third-quarter sales up 8.9 per cent. The shares rose as high as DM1,200 before settling back at DM1,184, up DM35.50. Dealers said VW was still basking in the news that Lower Saxony is, after all, to back next month's DM7bn capital-raising. BMW was up DM20 at DM1,392 after its third-quarter results.

PARIS gave up initial gains to drift lower in late trading. Motors stayed strong, but volume was on the notional side and in the end weaker bonds and the dull start on Wall Street held sway, sending the CAC 40 index down 31.83 to 2,958.06.

Dealers said there was some support from Morgan Stanley's decision to go overweight on Franca for the first time in 18 months, mostly at Germany'e expanse. Tha dollar was steady, but bond futures edged lower and the mood was further checked by the weak opening for US equities.

Valeo jumped FFr15 or 3.9 per cent to FFr401 and Peugeot was up FFr9 at FFr788. Michelin added FFr5.70 to FFr356.70 as brokers turned more positive on the motors sector following recent underperformance. Among banks, BNP gained FFr3.30 to FFr320.10.

Worms came off FFr6 to FFr501 after Artamie scotched hopee for an extended two-way takeover tussle by withdrawing its bid. AGF which, in conjunction with Ifil of Italy, still has a friendly offer on the table, cama off FFr5.80 to FFr318.9.

France Telecom firmed 80 centimes to FFr210.80. SGS Thomson, which with France Telecom joins the CAC 40 index on November 20, gained FFr15.90 to FFr493.90. Tobacco group Seita rose FFr2.50 to FFr192.50 on news of plans for s strategic alliance with Tabacalera of Spain.

Rhone-Poulenc came off FFr7.40 to FFr256 in spite of s rating upgrade from Goldman Sachs.

AMSTERDAM ended just above its low for the session after a day of relatively narrow trading. The AEX index closed off 7.05 at 915.47. PolyGram shed 60 cents cents to Fl 114.90 in spite of a broadly upbeat third-quarter results statement, but parent company Philips made progress ahead of its qnarterly results. These are dne today and are widely expected to show a dramatic improvement. The shares hardened Fl 2.30 to Fl 171.0.

MADRID shed early gains in a lifeless market as buyers sat on their hands after Tuesday's fireworks with the Endesa privatisation. The general index ended 2.58 lower at 599.42.

Tabacalera, the tohacco group, saw its shares drop Pta200 to Pta10,700 after it said it was investigating s possible alliance with Seita of France. Investors had marked the shares up by 10 per cent since Monday on hopes of a deal and were disappointed by the vagueness of the statement.

MILAN started ont in a record-setting mood as government bonds surged, with the Mibtel index touching a new intra-day all-time high at 16,194 before sliding back to close at 15,997, down 26.

Telecom Italia ended just L9 better at L11,628 after touching L11,810 on rumours that the privatisation offer was fully subscribed after just two days. Fiat, which had been strong following a bullish Goldman Sachs report, was unable to extend Tuesday's gains, ending unchanged at L6,275.

STOCKHOLM was given a boost as Ericsson powered ahead in advance of today's *third-quarter figures, but the* general index finished lower, erasing early gains to end *19.80 down at 3,122.38.* Ericsson ended SKr6 higher at SKr374.

ISTANBUL rose to a record high. Banks shares were strong as bond yields came down following the news that next week's auction was to be cut back. The IMKB National index added 70 or 2 per cent to 3,512.

FTSE Actuaries Share Indices — European series

October 22

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj	Total rets (Ecu)
FTSE Eurotop 300	975.70	−0.97	−9.53	2.25	0.00	980.15
FTSE Eurotop 100	2277.81	−0.84	−19.23	–	–	–
FTSE Eurotop 300 Regions						
300 UK	981.85	−1.88	−18.53	3.15	0.00	990.56
300 Ex-UK	972.85	−0.56	−5.48	1.78	0.00	974.90
300 Eurobloc	983.35	−0.62	−6.04	1.96	0.00	986.37
300 Ex-Eurobloc	985.36	−1.21	−12.03	2.49	0.00	990.86
FTSE Eurotop 300 Economic Groups						
Resources	994.80	−1.46	−14.72	2.74	0.00	1007.00
General Industries	990.14	−0.52	−5.14	1.98	0.00	991.48
Consumer Goods	937.07	−0.99	−9.34	1.92	0.00	940.19
Services	960.97	−1.05	−10.37	2.23	0.00	985.18
Utilities	969.94	−0.74	−7.20	3.17	0.00	975.48
Financials	982.31	−1.15	−11.40	2.28	0.00	986.80

Base value 1000. More information on http://www.ftse.com. 'FTSE' and 'Footsie' are registered trade marks of the London Stock Exchange and The Financial Times. 'Eurotop' is a registered trade mark of the Amsterdam Stock Exchange. FTSE Eurotop indices are compiled by FTSE International. © FTSE International Limited 1997. All rights reserved. Share Weighting change effective 23/10/97: Lufthansa (100% to 48.88%) (Germany) (Services).

Written and edited Jeffrey Brown, Jonathan Ford and James Montgomery.

SOUTH AFRICA

Another strong session for banks helped lift the broad market in Johannesburg, where the all-share index ended 35.6 higher at 7,420.0 in good volume.

The industrial index gained 87.2 to 9,036 as corporate earnings estimates came in for favourable treatment following this week's official reduction for interest rates. Financials, too, were in demand. Golds drifted, with the index ending off 4.6 at 1,005.

Hong Kong's slide accelerates

ASIA PACIFIC

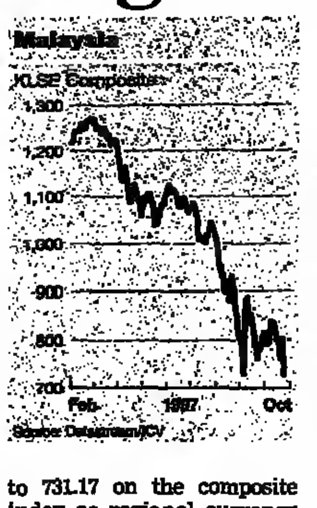
Most Asian share prices continued to lurch lower as worries about another round of currency turmoil sapped sentiment across the region.

Hong Kong fell 6.2 per cent to extend its decline this week to 15 per cent. Malaysia lost 3.8 per cent and the Philippines 3.3 per cent. South Korea provided the day's main contrast, *rebounding 6.1 per cent.*

HONG KONG fell steeply for the third day running, *the Hang Seng index sliding* 765.33 to a 13-month low of 11,637.77. Turnover was heavy at HK$23.6bn.

Currency scares were the main depressant, sending financials steeply lower following a rise to 12 per cent for inter-bank rates. The property sector lost 11.1 per cent, with Sung Hung Kai falling HK$7.75 to HK$66.25. HSBC fell HK$6.00 to HK$23.60.

Red chips and H shares also stayed weak. The China Affiliated Corporations index retreated 13.1 per *cent and* the H shares China Enterprises index came off 5.2 per cent.



KUALA LUMPUR fell 29.13 to 731.17 on the composite *index as regional currency* scares and last week's poorly received budget weighed heavily on sentiment.

Recent portfolio weighting reductions from 2 per cent to zero by Morgan Stanley prompted a straam of rumours about foreign sell programmes, with local brokers talking about a $260m block trade in the next few days.

TOKYO ended a three-day *losing streak*, rallying 2.8 per cent on the Nikkei 225 average following Tuesday's gains *on* Wall Street, *writes Bethan Hutton.*

The Nikkei 225 average closed 477.52 higher at 17,687.61, *after trading in a* range of 17,267.13 to 17,694.31. The broader-based Topix index of all first-section shares rose 22.42 to 1,366.74, an increasa of 1.7 per cent, while the capital-weighted Nikkei 300 index was up 4.29 to 269.42.

High-tech stocks were the main winners. Sony climbed Y200 to Y11,300, Kyocera Y290 to Y7,700, Canon Y140 to Y3,270, and Nikon Y80 to Y1,740.

The recently listed Central Japan Railway set a record high of Y396,000, up Y4,000. *Steelmakers rose* on foreign buying. Nippon Steel gained Y13 to Y274, Kawasaki Steel Y19 to Y234, and NKK Y18 *to* Y182. Shipping companies strengthened in the wake of progress on the US-Japan port practices dispute. Kawasaki Kisen closed Y27 higher at Y180.

Some selling of real estate-related shares continned after Tuesday's disappointing economic stimulus package, but construction and contracting issues were firmer. Kumagai Gumi rose Y11 to Y120.

Fuji Haavy Industriee came under pressure following a news report that it had covered up a defect in its Subaru cars. The ehares came off Y19 at Y502.

In Osaka, the OSE index gained 338.69 to closa at 18,295.34, in volume of 15.5m shares.

WELLINGTON hit an all-time high. The 40 capital index rose 35.54 or 1.4 per cent to 2,635.48 following a 30 cents gain to NZ$8.70 for NZ Telecom.

SYDNEY was active too, with the All Ordinaries adding 32.2 to 2,682.9 after data showing inflation at a 35-year low. Lend Lease gained A$2.72 or 8.9 per cent to A$33.32 on news of a possible insurance and fund *management deal.*

SEOUL bucked the regional trend on news that the government planned to nationalise Kia Motors, a subsidiary of the conglomerate Kia Group, whose financial troubles had been overhanging the market. The composite stock index broke back through the 600 level whicb it relinquished last week, finishing up 34.47 at 601.32. Kia Motors ended pegged to its limit high at 7,450 won, up 550 won.

EMERGING MARKET FOCUS

Banking on the high rollers

With the turmoil in Asian stock markats showing *little* sign of ending, brokers are starting to look for defensive sectors that might *buck the* downward trend in share prices.

One of the more surprising suggestions *to emerge* last week came in a report from Flemings, the investment bank, saying one such haven could be the quoted gaming sector.

Everyone knows that many Far Easterners love a flutter, as anyone who has been to Macao's Lisboa casino or Hong Kong's Sha Tin racecourse can attest.

In the US and Europe gambling tends to be seen as a luxury, exposed to swings in tha economic cycle. The Flemings report *snggests* Asian gaming could be more resilient.

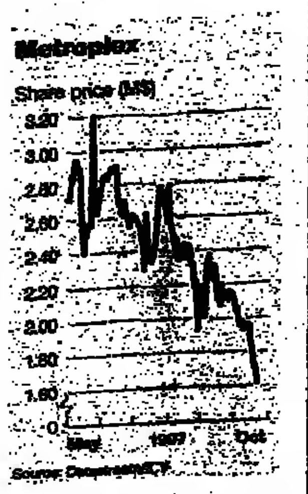
"What sets Asia apart, argnably, is the strong belief in destiny," the report says. "When a player walks into a casino, he does not just think in terms of winning and losing, bnt strongly believes he is facing his destiny."

The market, as in the west, is divided between "high rollers" – who place bets between $10,000 and $300,000 – and what is known as the "grind", gamblers betting $5 to $50.

Flemings argues that, while the grind is vulnerable to economic contraction, high rollers should remain a force. Most of today's big players are from China, Taiwan and Hong Kong. These regions have so far escaped ASEAN-style devaluation, and the hope is that high rollers will descend on the casinos of the Philippines and Malaysia to revel in their new spending power.

The gaming sector is well represented in those markets, where there are 10 quoted companies with a combined value of more than $10bn.

A typical recommendation is Malaysian-listed Metroplex, whose main



asset is a casino at Subic Bay in the Philippines. *This* is a high roller's playground, drawing 80 per cent of its business from Taiwan, Hong Kong and China.

Fund managers agree that gaming stocks enjoy defensive characteristics, notably financial strength as a result of their healthy cash flows. Seven out of the 10 listed Malaysian and Philippines gaming stocks hold net cash.

"The real attraction is that you are buying a pile of cash, which is a rarity in Asia," says *Peter Douglas* at Aberdeen Asset Management Asia. "For this alone, these stocks should outperform."

But institutions are less convinced that *high rollers* will pour into Malaysia and the Philippines. "There has been lots of speculation about people coming from Hong Kong and Taiwan but we have not yet seen that happen," says a fund manager in Singapore.

Whether or not these defensive strengths turn out to be real depends in part on whether – at least so far as gambling is concerned – Asian values turn out to be different to western ones. But with Asian stock markets likely to continue this year's downward trend, the need for defensive playe should grow.

Jonathan Ford

هكذا من الأصل

THE NETHERLANDS

Prime Minister Wim Kok's flexible workforce has been described as 'eloquent' and now others are copying it, reports **Gordon Cramb**

Plaudits for the Dutch model

It reverberated as a death knell for the Netherlands' paternalist employment traditions. Wim Kok, the former union leader who for the past three years has led a modernising left-liberal government, stood on a conference platform in the seaside town Scheveningen this month and said: "The job for life belongs to the past."

He was really only acknowledging reality. Well over a third of the workforce – the highest proportion in the industrialised world – is on part-time, temporary or otherwise flexible contracts which guarantee no such thing. Philips, the electronics manufacturer which is one of the country's top employers, had just made clear that time-servers among its 40,000 Dutch-based staff would have to move on within the group, or move out.

Yet the fact that the prime minister felt able to make such a pronouncement within months of a general election is testimony not only to the security of his own popularity, but to the changes in socio-economic life he has wrought. Mr Kok predicts that his government will have presided over the creation of half a million jobs by the time its current term ends next May.

He had a fair basis on which to build. Centuries of Dutch entrepreneurialism gained a country with only 15.5m people its place as the world's seventh largest exporter of goods and services. While the fruits of success in global markets were for decades sapped by a thirsty welfare system, its latest turnround is commonly traced to a wage restraint accord struck as long as 15 years ago.

Those were the dark hours. National income declined for eight successive quarters. One in every 25 manufacturers went bankrupt. Ruud Lubbers, the Christian democrat premier of the time, recalls: "The jobless total was rising by 15,000 a month – that was the driving force."

Around a kitchen table in Wassenaar, a leafy commuter village near The Hague, employers and unions in 1982 agreed a deal whereby pay demands would be moderated in return for job preservation, a shorter working week, and consensus on preserving the main social security pillars. Kitty Roozenmond, deputy chairwoman of the FNV, the country's largest union grouping, describes it as a "trade-off for greater security and more co-determination." The FNV boss at that table was Wim Kok.

Reforms of state finances under his government have halved the public sector deficit to stand at just 2 per cent of gross domestic product – the lowest since 1978 – with a further decline to 1.7 per cent projected for next year. Gross public debt will have fallen from 79 per cent to close to 70 per cent. Government expenditures are to absorb only half of GDP next year, down from 56 per cent in 1994.

Growth this year will be the strongest since 1990, in the economy as a whole and in employment. On the external front the Netherlands will have a current account surplus which as a percentage of GDP is the highest since 1953.

Data such as that have brought international plaudits for The Hague in recent months. A Dutch miracle, it has been called. The Dutch model, even: the "polder model", a term derived from the raised tracts of land forming much of the country, built in a co-operative effort to stem the tide.

France and Italy are taking up the idea that a cut in working hours can reduce overall unemployment rates. Jacques Santer, European Commission president, described as "eloquent" the country's example in reducing the indirect costs of labour by 2.5 per cent of GDP since 1985. In Germany, much attention has centred on the trust established among the Dutch "social partners". No western country loses proportionately fewer days to strikes. And real wages are below the levels of 1990.

Miracle yes; model no, says Jelle Visser, of the school for social research at the University of Amsterdam and Germany's Max Planck Institute. Annual jobs growth of 1.6 per cent is four times the EU average and "over 15 years has been as good as the American jobs machine, but without the sharp increases in inequality" seen the other side of the Atlantic, he maintains.

But there is no cohesive formula for other countries to adopt – "There has not at any point been a masterplan or a grand design" – the move to flexible employment represented a "coping strategy by women" – and there is also "no constant Dutch culture of consensus in decisionmaking: it has to be mobilised in times of crisis."

The Wassenaar accord was an outline which filled just one and a half sheets of paper, and was sketched in afterwards as circumstances required. While the main pillars of welfare may remain, what they support is not the edifice it once was. The opening of social security to market forces has been a main contribution of the current cabinet to the restructuring process.

Stricter screening means many of those who before were conveniently classified as disabled – a category which by itself reached at one stage nearly 10 per cent of the workforce – are having to find jobs. But unofficial estimates say that to the registered unemployment rate, which at an expected 5.75 per cent this year is among the lowest in the European Union, still has to be added perhaps a further 15 per cent of the working age population which is drawing some other form of pre-pension benefit.

Still, the ratio of economically inactive Dutch supported by those in work has come down to 76 per cent from a previous level stuck at around 83 per cent. And McKinsey, the international management consultancy, says: "The greatest threat to further economic growth in the Netherlands is complacency with what has already been achieved."

In a report last month it enumerates areas ripe for improvement, from procedures for designating land use to issues of corporate governance, where in each case restrictions apply which look increasingly out of line with international practice. Gerrit Zalm, finance minister, says efforts by the Dutch quoted sector to improve transparency and shareholder accountability have not gone far enough.

Competition policy has recently received government attention, and a law to limit cartels and restrictive practices comes into force from next January. But there is to be no monopolies commission, exemptions are already being handed out to sectors such as publishing, and regulators in newly liberalised industries are beginning to chafe at the narrowness of their remit.

The government showed its internationalist credentials by appointing Jens Arnbak, a Danish academic, as first chairman of Opta, the telecoms watchdog. But Mr Arnbak says: "Big gaps are emerging between the legal competencies of regulators in adjacent areas, especially where these relate to new developments such as the internet." KPN, the privatised posts and telecoms utility, is fighting hard to gain a presence in that medium, and there is no one empowered to adjudicate on all the complaints of the myriad small rivals it may drown in the process.

Of broader concern is the warning by Hans Blankert, chairman of the VNO-NCW employers' association, that the state is creating new rigidities in requiring all but the tiniest companies to engage a health and safety consultancy from next year.

Hague policymakers question some of the assumptions which led McKinsey to conclude that the removal of domestic regulatory barriers could yield an extra 1m jobs over a decade. But the close-up sectoral analyses carried out by the management consultants, and in a separate work last month by the government's own forecasters, are siezed on by an administration which micromanages with almost Singaporean zeal.

And the government budget for next year provides a subsidy so that, for a competitive Fl 17.50 an hour to the consumer, some of the unemployed can become household cleaners.

They will join some 40,000 subsidised jobs being generated by the end of 1998 in private sector as well as local authority positions. Rembrandt's Night Watch again forms a civilian guard on the streets of Amsterdam, backed by central funds in a programme initiated by Ad Melkert, employment minister.

As few as 2 per cent a year of those in so-called Melkert jobs make the leap to commercial posts. For the rest, the extent to which their functions replace paid work which would anyway be available has yet to be quantified. Even outside the Melkert mechanism, employment creation is occuring mainly at the bottom end of the skills scale. Eight out of 10 new jobs are in services or the public sector. Some do little more than shift a benefit recipient out of official unemployment data.

Even that does not make the picture look entirely rosy – as few as a quarter of the jobs lost since the 1970s have since been recovered. In most respects the Netherlands has been engaged in a catching-up exercise. This is in large measure acknowledged by Mr Kok, who said on budget day: "We have come a long way; we have a long way to go."

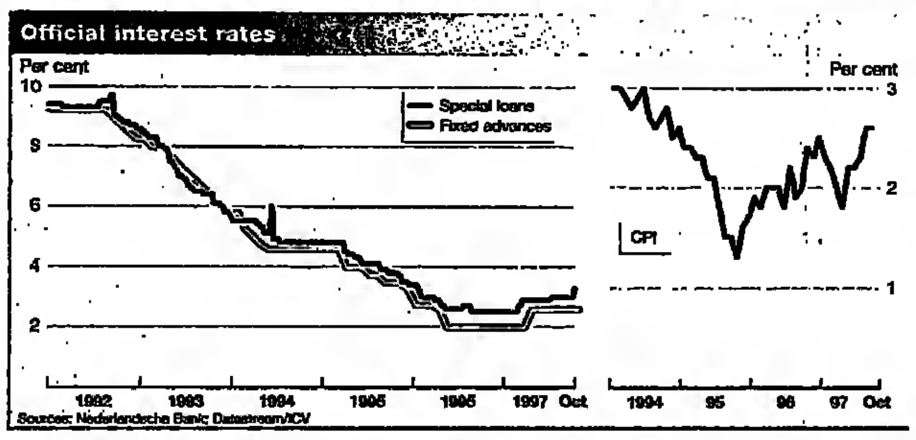
For all the "miracle," gross domestic product per capita comes in halfway down the western European league. And the question is whether any further progress through those ranks can be made at a time when economic and monetary union will further limit policy differentiation from its neighbours.

Nout Wellink, new governor of the central bank, showed his colours this month by increasing interest rates more than the latest signal from Frankfurt required, and is concerned that The Hague coalition is not cutting the deficit enough to allow room to adjust to the next recession.

How the Netherlands fares in a more integrated Emu economy will be more to do with what it can offer in skills and logistics. A shortage of technically minded workers is hampering growth in knowledge based industries, Mr Blankert warns. And Arnold Heertje of the University of Amsterdam argues: "The major issue for Holland in the coming years is not employment – we already have sectors where there are not enough people – but infrastructure."

Amsterdam's Schiphol airport, second only to London Heathrow in cargo traffic, is under a cloud after it breached newly imposed noise limits. The government agreed to tolerate this transgression – using a get-out not dissimilar to that employed for prostitution and cannabis – but its environmental obligations mean the airport will come under fire if the problem recurs, as is likely, in 1998.

Amsterdam has enjoyed growth without "a masterplan or a grand design" Photo: Lydia van der Meer



Sources: Nederlandsche Bank; Datastream/ICV

- Area: 41,526 sq km
- Language: Dutch
- Population: 15,597,000 (May 31 1997)
- Urban districts and population (Jan 1 1996)

Amsterdam (capital)	1,102,000
Rotterdam	1,077,000
The Hague	695,000
Utrecht	548,000
Eindhoven	398,000
Arnhem	315,000

- Currency: 1 Guilder (Fl) = 100 cents. Exchange rate: 1996 av $1 = Fl 1.6857. October 16 1997 $1 = Fl 1.9563

Constitution

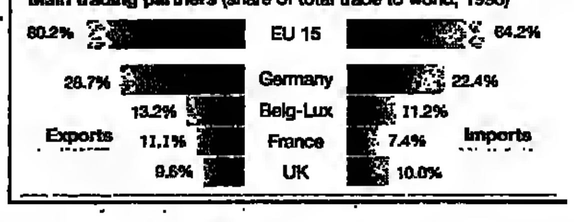
- **Form of state:** Constitutional monarchy
- **National legislature:** Bicameral Staten Generaal (parliament); First Chamber (senate) of 75 members elected by Provincial States (regional parliamentary assemblies); Second Chamber of 150 members, directly elected for a four-year term. The First Chamber may only approve or reject bills and may not initiate or amend them
- **Electoral system:** Universal direct suffrage over the age of 18. The whole country forms a single constituency and the Second Chamber is elected by the d'Hondt system of proportional representation
- **National elections:** May 3 1994; next election due by May 1998
- **Head of state:** Queen Beatrix, acceded to throne 1980
- **State legislatures:** Twelve directly elected Provincial States responsible for electing the First Chamber of the Staten Generaal and overseeing regional government. They also have the power to raise some regional taxes. The governing executive is called the Deputy State and is elected by each Provincial State but presided over by a commissioner appointed by the Crown
- **National government:** Council of Ministers headed by the prime minister, responsible to the Staten Generaal. Although ministers may introduce bills and speak in the legislature they may not be members of either house. There is currently a PvdA-VVD-D66 coalition government with a majority in the Second Chamber
- **Main political organisations:** Labour Party (PvdA); Christian Democratic Appeal (CDA); People's Party for Freedom and Democracy (Liberals-VVD); Democrats 66 (D66); Green Left Alliance; Political Reformed Party (SGP); Reformed Political Association (GPV); Reformed Political Federation (RPF); Centre Democrats (CD); Socialist Party

Sources: Ing Barings, EIU, Datastream/ICV

Economic summary

	1997 Estimates	1998 Forecasts
Total GDP, nominal ($bn)	366.7	413.8
Real GDP growth (annual % change)	2.7	3.0
GDP per head ($)	23,570	26,460
Inflation (annual % change in CPI)	2.3	2.2
Wage rates (annual % change)	2.8	3.0
Industrial production (annual % change)	3.7	3.3
Unemployment rate (% of workforce)	5.9	5.7
Broad money (annual % change)	5.0	4.9
Three month interest rate, year end (%)	3.1	3.5
Long bond yield, year end (%)	5.80	5.75
Budget balance (% of GDP)	74.9	72.9
Government debt (% of GDP)	9.0	12.8
Current account balance ($bn)	17.1	22.8
Merchandise exports ($bn)	214.5	247.2
Merchandise imports ($bn)	-193.8	-220.2
Trade balance ($bn)	20.7	27.0

Main trading partners (share of total trade to world, 1996)



FURTHER READING

Challenging Neighbours: Rethinking German and Dutch economic institutions. CPB Netherlands Bureau for Economic Policy Analysis. Springer-Verlag, Berlin/Heidelberg

Boosting Dutch Economic Performance. McKinsey Global Institute, Amsterdam

'A Dutch Miracle': Job growth, welfare reform and corporatism in the Netherlands. Jelle Visser and Anton Hemerijck. Amsterdam University Press

POLITICS • by Gordon Cramb

Telling time for coalition

At the election, Kok's PvdA party can no longer be assured of pre-eminence

In just over six months a general election will help determine the future pace of economic deregulation and reform in state finances. Its circumstances will for a number of reasons be unusual.

First, the two main parties in the governing coalition enter the campaigning season neck-and-neck in the opinion polls. The latest test of voter sentiment this month accorded to the social democratic PvdA of Wim Kok, prime minister, 42 seats in the 150-member lower house. The free-market liberal VVD was just behind with 40 seats, but in soundings earlier this year had been leading the popularity rankings.

Either way, the VVD is on course to increase its representation from the 31 seats it holds in the current parliament. While Mr Kok's party will on present form also add to its 37 MPs, it can no longer be assured of pre-eminence. That is important in a country where government by coalition is the norm, and where the leader of the largest party in any such grouping is by tradition given the premiership.

Second, the contest will be the first for half a century in which the Christian democrats fight as opposition. The CDA, linking the former protestant and Roman Catholic parties, won three seats more than the VVD in the 1994 election but was ousted from the cabinet when labour sided instead with the liberals and the reformist D66.

Third, only weeks ahead of the May polls the European Union is due to decide on which member states qualify for the single currency. While there is no doubt that the Netherlands will be among them, and little argument that it should, any admission to monetary union of countries such as Italy may cause last-minute nerves. In the absence of substantive domestic issues dividing the parties, Dutch politicians could finally bring Emu to the forefront.

Jaap de Hoop Scheffer, who will head the CDA field, said this summer: "To my joy there is some debate on monetary union coming – though it is too little and too late. This debate has [in the Netherlands] always been elitist, conducted among foreign policy experts. People are waking up when they hear it relates to their own pension."

The Dutch are conscious of the benefits brought to them by the stability of the guilder, pegged to the D-Mark for more than 15 years. Fringe parties on the left as well as right have been warning of the dangers in its demise. The Socialist party, which is running a referendum petition on Emu, could more than double its presence in the second chamber – according to polling evidence which would be dramatic were it not for the fact that the SP now has only two MPs.

Closer to the centre of Dutch politics, the most prominent Eurosceptic voice is that of Frits Bolkestein, combative parliamentary leader of the VVD. Mr Bolkestein declined a place in the cabinet formed in 1994 so he could continue to speak out, and has done so in ways which wobbled the coalition a few times this year.

Yet few of the issues he picks – perils in the eastward expansion of Nato, and misdeeds in the former colony Surinam – are obvious vote winners. His party's drive for deregulation and fiscal prudence means it is popular, but as a potential prime minister he is not. Five times as many electors prefer Mr Kok, who used his time as finance minister in the previous CDA-PvdA government of Ruud Lubbers to shed his trade unionist mantle before emerging as national father figure.

Six months spent bestriding the European stage as president of the EU council of ministers did Mr Kok no harm, and the VVD would find it difficult to distance itself from any forthcoming Emu debacle given that Mr Kok's successor in the finance portfolio is Gerrit Zalm, one of its number.

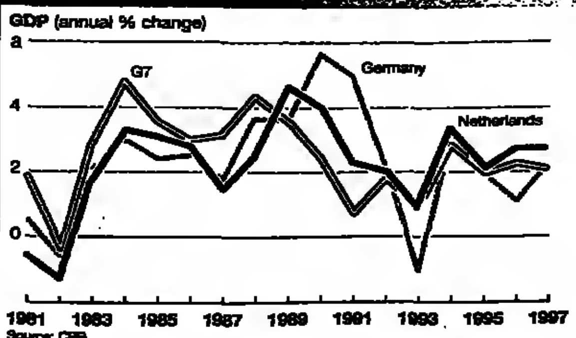
Other permutations are possible as replacement for the current "purple" (red/blue) coalition, and a lot depends on post-election arithmetic. The CDA has governed with the VVD before and could do so again, with the waning D66 as makeweight if needs be. Or an inverse Lubbers arrangement could see the PvdA taking in the CDA as junior partner, if recent moves to refresh the Christian democrats' ranks lift their share from a currently projected 29.

Just as ministers maintain that the success of the present coalition makes Purple II the best choice, their party activists point out the other possibilities. For one, D66 will no longer be needed for a majority unless it can claw back from its partners some of the seven out of 24 seats it is in danger of losing. That revival looks unlikely after Hans van Mierlo, foreign minister, passed the party banner to Els Borst, health minister, who at 65 is only seven months younger and whose strengths are greater as medical professional than hustings campaigner.

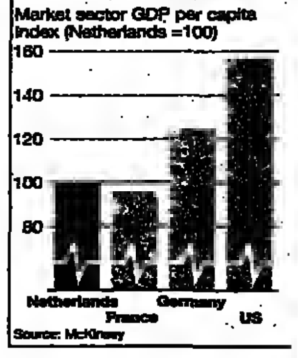
In 1994 it took nearly four months to form the current cabinet. Next year could bring another long, hot political summer.

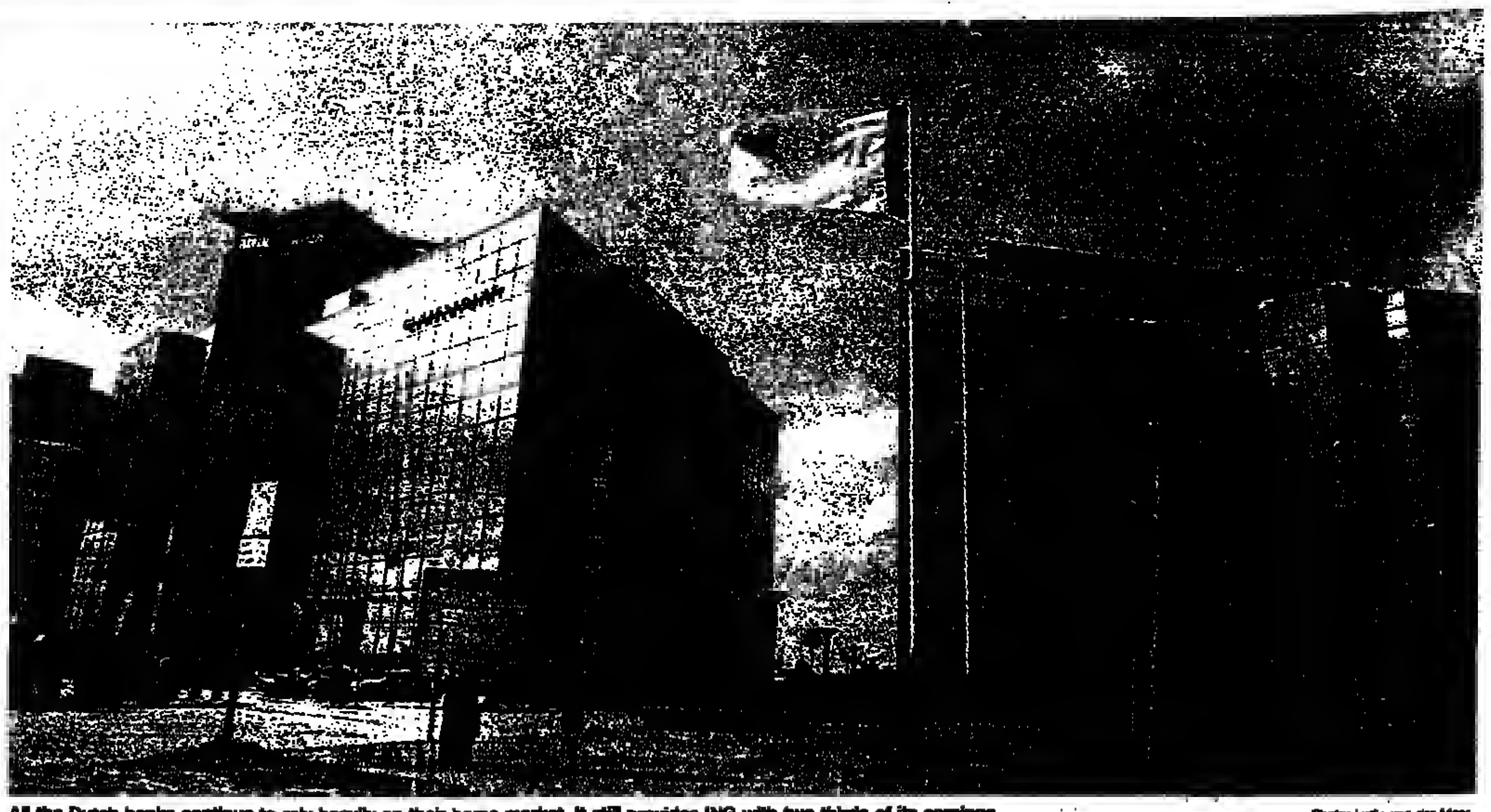
Wim Kok's (left) PvdA is likely to add to its 37 MPs in the election but VVD, led by Frits Bolkestein, the prominent Eurosceptic, is on course to increase its representation from 31

Dutch growth compared



Industrial output





All the Dutch banks continue to rely heavily on their home market. It still provides ING with two thirds of its earnings Photo: Lydia van der Meer

ECONOMY • by Gordon Cramb

Battening down the hatches

The government is insulating its successes against the next downturn

Partly in pride and partly warning of a fall. Gerrit Zalm, finance minister, acknowledged in presenting his 1998 budget last month: "It will be unique in history if growth continues for eight years."

The Netherlands escaped the last European recession. By nearly all measures it is now riding high. A government which has had an easy economic run since it took office in 1994 wishes to insulate its successes against the next downturn. Part of that involves preparing the public for a change in the business cycle. At the same time it is seeking re-election for another four-year term next May.

Mr Zalm dealt with these conflicting pressures by paying out more than had been expected. The budget proffered Fl 3.9bn net cuts in tax and social security charges, equivalent to some 0.5 per cent of gross domestic product.

Economists dispute that such stimuli are justified for a country forecast to enjoy a third successive year of growth higher than 3 per cent – and where inflation at above 2.5 per cent is the highest in the European Union after Greece. Producer price increases are running ahead of 4 per cent year-on-year.

Nont Wellink, new governor of the central bank, this month made clear not only his concerns, but his intention to do something about them. In his first action since he inherited the job from the long-serving Wim Duisenberg – now in Frankfurt to oversee the EU's move to economic and monetary union – Mr Wellink ordered a rise in official interest rates.

He took his cue from the German Bundesbank, but went further. Not only did the special loans rate rise in line with the Bundesbank's repurchase rate for money market activities – an increase necessary to defend tha guilder's value against the D-Mark to which it is pegged.

But the Naderlandscbe Bank said that "considering the development of the domestic economy" it would also add a quarter point to its fixed advances rate, the equivalent of the Frankfurt discount rate which had for tha moment been left unchanged.

Ministers insist there are no signs of overheating. The central bank accepts that inflation bas been largely driven by a rise in the dollar and sterling which halted in August. And fears of an asset price bubble eased when the Dutch stock market underwent a summer correction, after a year of setting records fuelled by private investor enthusiasm.

But other warning signals remain, such as residential property valuea – some Amsterdam apartments have nearly trebled in price over five years. That has brought a welter of remortgaging as owners extract capital from their homes. Statistlca Netherlands estimates that Fl 21bn was converted last year from bricks and mortar into consumption spending, and that 40 per cent of new home loans in the first six

Gerrit Zalm: paid out more than had been expected

months of 1997 were remortgages.

Growth for the past year has been consumer-led. Exports, the traditional motor of the Dutch economy, are expected to resume that role for 1998, when official predictions say real GDP should increase 3.75 per cent. In its latest quarterly report, produced just after the budget, the central bank says that capacity utilisation continues to rise and that "monetary developments in the Netherlands remain expansionary."

Hans Blankert, chairman of the VNO-NCW employers' federation, made his, in part successful, pitch for business tax concessions in the budget by producing evidence that earnings growth was currently based on bigger volume rather than better margins. If these became squeezed, the corporate sector would be extra-vulnerable in a downturn.

He also struck a chord in The Hague with a warning about skills shortages, and a government action plan to address vocational training is due by the end of the year.

"Two thirds of companies find difficulty in securing qualified personnel," says Mr Blankert, and the problem is most acute in services, which are rather more important to the Dutch economy than manufacturing industries.

Manufacturing bas seen a further shake-out in 1997. When Fokker shut this spring, aircraft building followed sectors such as textiles to the wrecker's yard. Yet of the 5,500 Fokker workers who clocked on at the beginning of last year, some 2,400 are continuing their previous tasks supplying parts and maintaining its fleet – their pay cheques now come from Stork, the Dutch industrial services company which bought up those units.

Demand for EU production capacity from industrial groups abroad belped KNP BT agree the Fl 1.5bn sale of its burdensome original core business in paper making to Sappi of South Africa, and aided Akzo Nobel in striking a joint venture deal with Turkey's Sabanci for its similarly troubled industrial fibres division.

But the country's overall economic stability derives in large measure from the continuing importance of agricultural produce in the export mix, particularly to Germany, the largest overall market for the Netherlands by far. And at a conference in Düsseldorf last month Hans Wijers, economy minister, pointed out that total exports to North Rhine Westphalia state alone equalled shipments to all countries outside the EU.

This dependable business in feeding the large neighbour to the east is one factor in the recently vaunted Dutch "miracle" for which The Hague's policymakers cannot claim much direct credit. What helps secure that trading position, though, is exchange rate certainties which, ahead of the single currency, have been made possible by central government efforts to reform state finances. The public deficit is projected at 1.7 per cent of GDP next year, well within the intended Emu ceiling of 3 per cent.

Governmant debt will be stuck at above 70 per cent, partly because of Mr Zalm's payback – to a populace by now inured to wage restraint but by no means benefiting equally from the metropolitan asset balloon. Although the decline in the public aector borrowings ratio (from above 80 per cent four years earlier) should satisfy proapective Emu partners, the absolute debt stock in guilder terms is still rising.

BANKING • by Simon Kuper

Success at the cutting edge

The economic recovery in the 1990s has lead to a boost in savings and gdp

"The Netherlands is a small pea," says Jan Zegering Hadders, a director of ING Bank. Yet the country has three of the 15 largest banks in Europe, and two of the world's six biggest listed insurers.

Mr Zegering Hadders explains this by recalling the economic crisis that hit the Netherlands in the early 1980s. Many banks were forced to merge – most famously, ABN and Amro – and so tha Dutch sector consolidated early. Advised by McKinsey, the management consultant, and others, they cut costs before this became fashionable.

Three big banks, ABN Amro, ING and Rabobank, came to dominate the Dutch market and began looking abroad for larger, less volatile markets. Like their Dutch clients, they had always been relatively international. ABN had been in Latin America for most of this century.

The three banks, and ING and Aegon in insurance, have made saveral billion-dollar foreign acquisitions in recent years. ABN Amro is now the largest foreign bank in the US.

Yet all the Dutch banks continue to rely heavily on their home market. It still provides ING with two thirds of its earnings, points out Mr Zegering Hadders. "How can this be?" he asks.

The reason is that the Netherlands in the 1990s has experienced a long, smooth economic recovery. The state has withdrawn from many areas, leaving people to save more for their pensions and insurance schemes. Gross domestic product has grown at a healthy 3 per cent a year this decade, but the demand for financial services has expanded by 10 per cent annually.

The boom in Amsterdam stocks is just one consequence. Dutch consumers, who traditionally kept their money in savings accounts, began buying shares when interest rates dropped to 3 per cent and their friends and relatives began boasting about stock market killings.

Fifteen years ago banks had considered closing down their equity departments. Now they are raking in commissions. "The Dutch market turned out to be more lucrative and bigger than anyona had thought in the 1980s," says Mr Zegering Hadders.

The market's only drawback is its low margins – surprisingly so, given that three banks dominate it. Rabobank, a co-oparative bank, has more than 90 per cent of the farming sector.

Henk Visser, exectuive director of Rabobank, explains the margins paradox: "None of the Big Three allows any of the others to raise its market-share much. As soon as one bank acts, the other two react." He claims that Rabobank has been instrumental in keeping margins down, because as a co-operative it aims to keep prices low for its members. The low margins have helped limit foreign banks to a small rola in the open Dutch market.

The Dutch banks now aim to expand throughout the European Union. The arrival of the euro should create something like a single market in financial services. Mr Visser says RaboBank will seek alliances with foreign banks, rather than aim for takeovers and mergers, partly because banking culture differs so much from country to country. ING, however, is looking for a large European acquisition.

Dutch bankers agree that many of their neighbouring markets are relatively closed. "The so-called free European market isn't free," complains Leo Overmars, director of Nederlandse Vereniging van Bankan, tha Dutch bankers' association. If it opens, he believes, Dutch banks would succeed in the new territories.

Such confidence can seem dangerously close to hubris. After all, Japanese banks hit a bad-loans crisis; the US had the savings-and-loans drama; why should Dutch banks be different?

But Mr Zegering Hadders insists: "It is an unthinkably healthy sector." The three banking "molochs", as he calls them, have money coming out of their ears. They all raised net profits by between 17 per cent and 35 per cent in the first half of this year, helped by the strong dollar. All maintain fairly conservative BIS-ratios. They do not plunge heavily into debt to make acquisitions.

"Wa turn over avery 10-cent piece 26 times," says Mr Zegering Hadders. The early 1980s, he says, taught banks to avoid financing speculative property deals. Banking salaries have risen, but in this egalitarian country the sort of pay packets earned by London bankers remain unknown.

Even an Amsterdam stock market collapse would hurt banks only modestly, shrugs Mr Visser. Mr Overmars says: "I don't have any worries, but maybe that's just me."

PROFILE Aegon

Cultural gaps likely to prevail

Insurer's expansion is moving in surprising directions

Kees Storm does not look like the chief of a multinational company. With his bristling moustache, his protruding front teeth and his relaxed manner, he could be just another Dutch nine-to-four salaryman. But he is chairman of Aegon, ranked among the 10 largest insurers in the world.

Aegon is growing ever larger fast, but the direction of its expansion is surprising. With European economic and monetary union due to start, supposedly creating a single market in euro-denominated financial products, his company is making acquisitions in the US. Last year it paid $3.5bn for Providian, a Kentucky-based financial company.

"For the next 100 years there won't be a single market for insurance products in Europe," says Mr Storm. Although an Emu enthusiast, he believes that the financial cultures of the various countries, especially the tax systems, remain unbridgeably diverse. Governments such as France and Italy are unpredictable. Many markets are still semi-closed.

By contrast, he says, the Netherlands is a very competitive market, with the lowest insurance premiums in Europe except

Kees Storm: profiting from the change in behaviour

for the UK. However, revenues are rising because in recent years Dutch retail investors have hurled themselves upon the stock market. "Ten years ago the Dutch consumer was a risk-averse person who at best had a post office savings book," he recalls. Aegon and its domestic rival ING have profited from the change in behaviour.

Reflecting on his competitive home market, Mr Storm says: "I think the Netherlands is the most Anglo-Saxon nation on the continent. We have the same culture as the Americans – or lack of it."

Furthermore, he says, the US market offers "gigantic" growth opportunities, particularly in pensions and savings products. Only the mutual funds sector is fairly mature. Aegon may make further US acquisitions. By contrast, it has so far decided not to enter France, and operates in Germany on a modest scale.

"We behave as if the European Union exists, and it does," says Mr Storm, "but the various countries remain very different."

Nor will the arrival of the euro change much in the Dutch market, he believes, since foreign companies can already enter it at will. "No doubt tomorrow a Korean will come and say, 'The Netherlands is a great stepping stone for Europe', and set up an office here."

He thinks the open market is why the number of insurance companies in the Netherlands has stubbornly refused to decline. "I've been predicting consolidation for 20 years, so I'll stop doing that now."

Simon Kuper

PROFILE internet services

Liberalisation allows more traffic on to superhighway

As 150 or so competitors make strides, KPN is making a robust challenge

Liberalisation of the Dutch telecommunications market this year has brought benefits for the 150 or so companies offering internet access in the country – and a robust challenge from KPN, the privatised former monopoly, for a share in those revenues.

From July KPN bad to cede its sole right to supply basic voice services to consumers: its hold over business and data traffic was removed earlier. Tha company is seeking waya to replace lost income for a telacoms division which is intended next year to gain a separate bourse listing.

PTT Post, the mail side from which it is being split, acted to secure its future with the purchase last year of TNT, the Australian parcels group. While PTT Telecom has also been active abroad, collecting stakes in phone utilities, it is determined not to surrender the leading role in a home market for telepbony wortb more than Fl 15bn a year.

That corporate aim brought Herman Wessels, wbo a year ago was in cbarge of PTT Telecom's Rotterdam region and had not himself set foot on the superhighway, to a new base in Utrecbt as managing director of internet services. He was charged with quadrupling the present 500,000 domestic users of online services in the Netherlands by the end of next year.

"We have to lower all the barriers there are," be says. KPN had just acquired majority holdings in Planet Internet and World Access, two of the country's biggest internet sarvice providers (ISPs). But these, like their peers, offered accesa to a world in which users needed familiarity with English as well as with software programs.

Fine for the young, urban and mnltilingual, it was thought. Planet Internet had already made a mark with Dutch-languaga editorial content, some of which is kept proprietary for its customers. The reach needed to be extended, though, if KPN was to increase call activity on its domestic lines, to establish a broking role in electronic commerce – and to claim a place in the market for Internet telepbony itself, if technological improvements mean, as the company suspects, that the internet soon becomes a challenger to traditional telephone companies in standard long-distance calls.

One in every two Dutch households has a personal computer, says Mr Wessels: a higher penetration than in the US. But home connections to the internet are less than a third of US levels. The solution was a dial-up

service launched last month and called Het Net ("The Net"). A cross between a corporate intranet and an old-style electronic bullatin board, it provides e-mail and the latest in screen graphics, but no direct access to the World Wide Web.

Some 60 leading local companies signed up for sites, mainly offering versions of what they already had on the Wab. Still, an informal poll of 900 readers of Planet Multimedia, an online Planet Internet magazine accessible to customers of other ISPs, suggested a quarter would take a Fl 5 a month subscription to Het Net as well.

The responses of most were disparaging, howaver. "I already have the Yellow Pages," said one. Another read: "Surfing Het Net is like driving a car with the steering lock on." While seasoned internet users are not the target market for the service, the publication of their reactions by Planet Internet demonstrates an independent-minded approach to wbat will becoma its new role as a provider of online content within PTT Telecom. Its subscribers' connections are being switched over to World Access.

"It is important for our public credibility to be critical of activities whether they concern the PTT or other telecom operators," says Planet.

Other ISPs are critical of PTT Telecom, not so much for its keenness to secure a place in their sector but for the service it offers them as wholesale customers. Among the most valued of these are "virtual points of presence" – the ability to offer internet hookups at a local call tariff without pbysically pntting modems and switchgear in every dialling district in the country. According to Nick Reid, overseas development manager of the UK's Demon Internet, KPN aales ataff promised this but then withdrew.

"My feeling is that it was intentional," he says. "The senior management may have said, why should wa help these people?" Nearly a year behind schedule, the service will become available as a result of a deal with Enertel, a consortium grouping Dutch energy and cable television companies which is building one of two new national infrastructures for telecoms. Telfort, the rival venture grouping BT of the UK and the Dutch national railways, was slightly slower off the mark.

The Netherlands is Demon's first foreign market. Its arrival forms part of an internationalising of the ISP sector which last month saw NLnet, one of the biggest, snapped up by WorldCom of tha US, owner of UUnet and recent bidder for MCI. BT, its antagonist in that contest, through Telfort owns a minority abare in another, WorldOnline. EuroNet, also an established Dutch provider, in May took over Infoboard in Belgium.

None employs more than about 150 staff in the Netherlands. Yet these are all new jobs, and created in part hecausa tha country is extending into cyberspace its traditional role as an entrepot nation – the Amsterdam intarnet exchange, where providers trade spare capacity, is shaping up to be among the world'a largest.

Demon set up in the city for that reason, only later deciding to seek a domestic customer base. High-level technicians it has had to import because of a lack of the suitably skilled local applicants it would prefer.

Gordon Cramb

LABOUR • by Barbara Smit

Flexibility pays dividends

Pragmatic collaboration has contributed to an impressive rate of job creation

Since July *this* year, working weeks at Akzo Nobel, the Dutch chemicals producer, have been divided into "blocks". In principle, employees get twice as many days of leave as before. But the company may buy some of these extra "off" blocks in busy times, and employees may sell them by volunteering to work, with the management's approval.

Akzo describes the system as "a box of Lego cubes without a construction manual".

Though it may be too early to assess the merits of this particular arrangement, it illustrates a fast-moving trend towards shorter working weeks and more flexibility in the Dutch labour market. Such pragmatic collaboration between employers and trade unions has contributed to the impressive rate of job creation in the Netherlands.

ABN Amro Bank says the number of Dutch people in work has increased by 16 per cent over the past decade and a half, compared with an average of 4 per cent for the European Union. Last year alone, the figure rose by 110,000, and the social affairs ministry estimates it will have helped create 465,000 jobs in the four years to the end of 1998.

Some 15 years ago, trade unions agreed to wage moderation in return for a shorter working week and a commitment to employment creation. The average working week was reduced from 40 to 38 hours, while the unions proved open-minded *and consistently modest* in their wage demands. This has since led to a 36-hour week for most civil servants and some private sectors, such as banking staff.

But it has also helped to create alternative, increasingly flexible working arrangements. "That would be unthinkable in other countries because the trade unions would immediately cry 'foul'," admits Jan-Willem van dan Braak, an employment expert at tha Dutch employers' organisation, VNO-NCW.

To the initial dismay of their European colleagues, Dutch trade unions fully supported efforts to redistribute work throngh part-time employment. As a result, 37 per cent of Dutch employees work less than a full week – by far the highest rate of part-time employment in the industrialised world.

Predictably, the strongest demand for part-time employment comes from women. In the early 1980s, little more than one-third of women were in the labour market: the country's Calvinist traditions dictated the distribution of roles within the family. Now more in tune with other European countries, nearly half of Dutch women work outside the home, and of those about two-thirds have part-time jobs.

Meanwhile, The Hague adopted a string of labour market reforms that strongly stimulated the creation of so-called "flex-jobs", *from temporary contracts to* on-call jobs, that represent about 15 per cent of all Dutch employment, according to government estimates.

In the past three years, the number of flex-johs has increased by a third, with tha number of temporary contracts soaring by 75 per cent. The proportion of temporary workers in the Dutch laboor market thus reached an unusually high 3.5 per cent last year – more than double the level of Germany.

> 37 per cent of Dutch employees work less than a full week

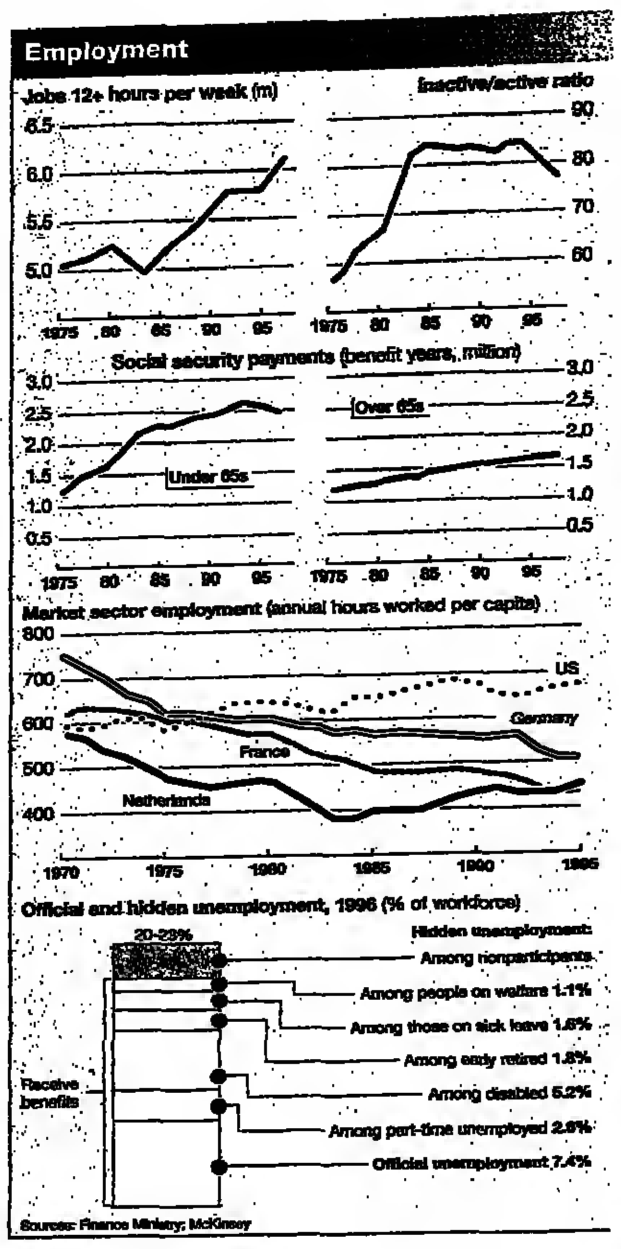
According to economists, this increased flexibility was made possible not only by specific deregulatory moves but also by the decentralisation of labour negotiations. Talks about wages and working conditions, that used to be held at national level, may now be conducted by individual companies to create packages that match their specific needs.

It was this shift that allowed Rabobank, for example, to push ahead with the introduction of flexible work schedules. In line with collective labour agreements signed by the Dutch banking sector two and a half years ago, Rabo has redneed its working week to 36 hours. But it was also able to reach a *special deal* with the unions, as a result of which employees may, for example, be expected to work until 9pm without receiving overtime rates. The bank says a large share of the jobs created in the past two years were linked to the agreement.

At the same time, the government has created further job opportunities by engineering more general economic reforms, such as longer opening hours for retailers. Employment growth has been boosted by tax cuts as well as subsidised employment schemes that focused on the lower-skilled and long-term unemployed.

While acknowledging the progress that has been made, some economists point out that, in some sectors at least, labour regulations are still inflexible enough to deter foreign investors. They also question the security and the quality of the jobs that were created, arguing that low-skilled, subsidised jobs slow down the growth of Dutch productivity.

Fred Pallada, an economist at ING Bank said: "As favourable as the trend may be, it remains to be seen how many of the new jobs will survive an economic downturn."



PROFILE Melkert jobs

Pride without prospects

Clad in a dark-blue uniform with police-style insignia, Mustafa Celebi confidently paces the streets of North Rotterdam, known for drug dealers and petty crime. Back at the station, he proudly shows a framed picture of himself holding up a bag of cannabis leaves, big enough to fall foul of even the liberal Dutch laws on soft drugs, that he seized last year.

But unlike his colleagues from the Rotterdam police force, the only weapon that Mr Celebi carries is a walkie-talkie. He may apprehend suspected drug dealers on the pavement, but only police officers can formally arrest them; he may stick warning notes under the wipers of wrongly parked cars, but these do not entail any fines; and elderly people may be reassured by his presence and his uniform, but many others just laugh (or literally spit) at him.

Mr Celebi, a 30-year-old former construction worker who had been unemployed for three years, is one of the tens of thousands of people who were recruited under the Melkert scheme. Set up two years ago and named after Ad Melkert, social affairs minister, this provides *subsidised* jobs for an indefinite period to mostly low-skilled people who have been unemployed for at least one year.

The scheme creates "additional" public sector jobs that may not be justified from a strictly economic point of view, but that respond to social needs: from extra staff in nurseries to concierges, public garden attendants and street patrollers. Remuneration for the 32 hour-a-week jobs may reach up to 120 per cent of the minimum wage.

Last year the scope of the project was enlarged with the Melkert II jobs, in which private companies are given subsidies to recruit long-term unemployed people for up *to 18 months. In the long* run, the government hopes that the scheme will help the participants find a regular job, but concrete results are less than encouraging so far.

For Mr Celebi, the job is financially not very rewarding. He says he only earns about Fl 300 a month more than he would get from the social services, and his housing benefits are to be cut, so he will be worse off; and his schedule includes many unsociable shifts. "On top of all that I take the risk of having a knife stuck between my ribs and I expose myself to the denigration of hoodlums who know full well that I don't have any more authority than any other citizen to arrest them," he says.

Nevertheless, Mr Celebi takes pride in his Melkert job. While on duty he reports to police the number plates of foreign cars that are presumed to belong to "drugs tourists"; he alerts the health authorities about "weirdos who hang around swilling beer in children's playgrounds" and he helps clean up used needles left behind by addicts.

"At least this way my four children don't have to tell their schoolmates that their father is unemployed, and I am doing something that is really useful to society," says Mr Celebi. "More than anything else it's a matter of pride – a feeling that you're part of the action again".

In the dockside area of Amsterdam, the Collusie foundation provides a different kind of Melkert job. Financed by local authorities and public utility services, it gives free environmental advice to schools, retailers and *other small companies*.

Dani Bol, a 48-year-old who was unemployed for nine years, volunteered for a two-month training that now enables him to advise entrepreneurs about energy-saving *lighting* devices, environmentally-friendly cleaning products and waste disposal methods. Like the other employees of Collusie, he has secondary level education, but he says the governmental employment agency never had any suitable offers for him.

Having looked after his children full-tima for several years while his partner worked, Mr Bol admits that he found it hard to adjust to regular schedules again. "Some peopls still find it strange that I'm prepared to put in the hours for the minimum wage," he says. "But at my age the only alternative is the dole queue, and I am actually enjoying the job".

On that morning the client is Bob Oei, an *Amsterdam chemist* who is thinking about having solar panels installed on his roof. Unlike many other prospective clients, who are mainly interested in cost-savings, the chemist is conscious about environmental matters. He raises an eyebrow when told why the advice is free – "Melkert" being behind it. Yet the articulate Mr Bol easily convinces him *to* compile an in-depth report about ways to make his company more "green". Mr Bol is clearly thrilled as he leaves the shop.

"This organisation is not *profit-making but it* creates jobs and it actually contributes to a cleaner environment. These two objectives are of equal value to us," explains Anne-Martine Hupkens, one of the Collusie project leaders. "One of our tasks is to find other jobs for the participants, but even if we don't, it is a purpose in itself to keep them active for the time being". Like many of his colleagues, Mr Celebi hopes that his Melkert job will make it easier for him to find a waged commercial job as a security officer. As part of *the project*, the municipality of Rotterdam has offered him a course that should lead to a diploma.

Likewise, Mr Bol hopes that his newly-acquired expertise will enable him to get a better-paid job as an environmental adviser. But tellingly perhaps, not one of the participants involved in either project has moved on to a regular job since they volunteered for the Melkert scheme about two years ago.

That is, to be precise, leaving aside ona former employee of the Collusie foundation who has become a monk.

Barbara Smit

EMPLOYMENT AGENCIES • by Barbara Smit

Permanent position for temps

Companies are increasingly turning to "external flexibility"

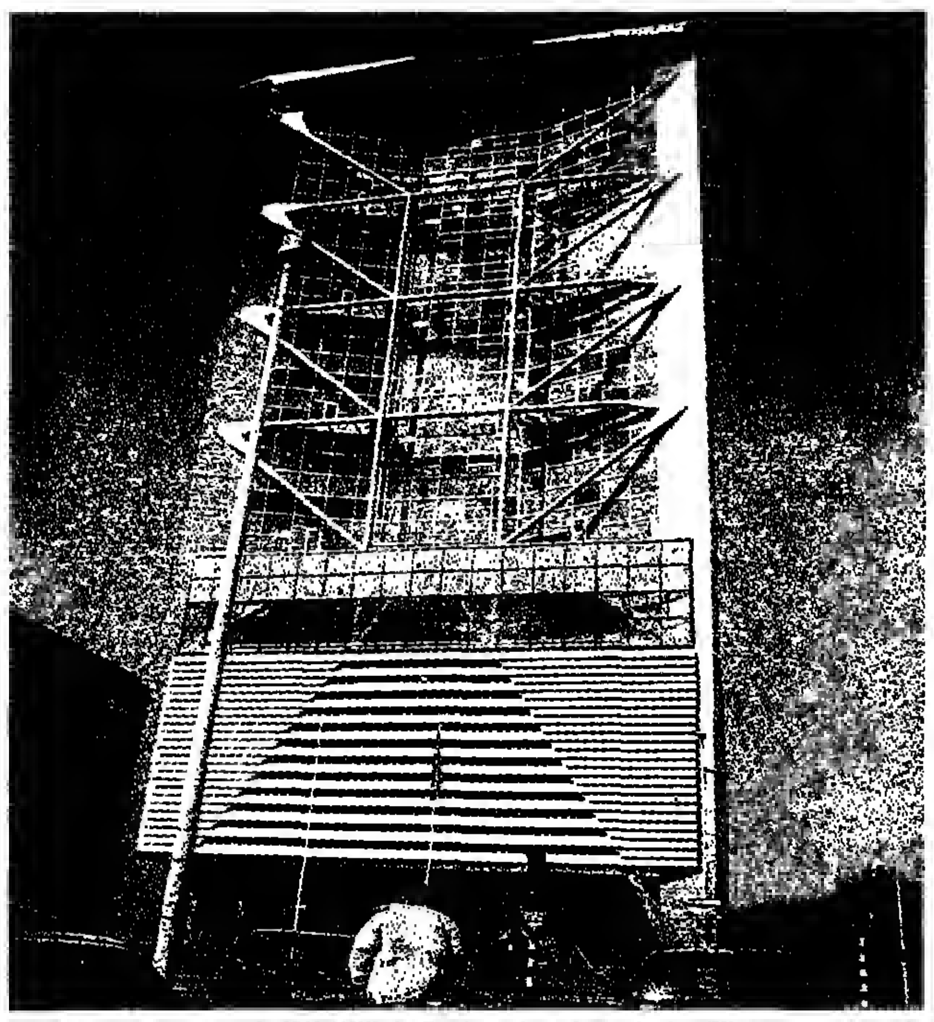
In June tbe flotation of Vedior, *the Dutch temporary* employment agency, was greeted with such enthusiasm on the Amsterdam stock excbange that the price ranga for the shares was raised at the last minute, yet they were *still* 30 times oversubscribed.

Vedior promlses double-digit growth in its domestic market for the years to come as well as a foreign acquisition spree. Gert Smit, chairman, intends ta double the company's Dutch market share to some 20 per cent within the next three years, while also increasing its European share from the current eight per cent to about 15 per cent in five to 10 years.

The listing of Vedior, a spin-off from the Vendex retailing company, has provided investors with an *insight into the scope* and the prospects of a domestic market worth an estimated Fl 9.4bn.

Vedior is the third largest Dutch temporary employment group, with sales of about *Fl 5bn in this sector* through a network of agencies in seven European countries. (The company also provides claaning services.) More than half of these revenues come from France, the continent's largest market, where Vedior acquired Bis this year.

Overall the Dutch temping market grew by nearly 24 per cent last year, and although this expansion is expected to slow, most experts still forecast growth of about 10 per cent. "Demand is increasing at such a pace that some agencies are having trouble finding temps," says Jurgen Veenker, an analyst at MeesPierson, the investment bank.



The Malie Tower, home to the VNO-NCW, the Dutch employers' organisation. "Wage moderation and a shorter working week have led to increasingly flexible working arrangements" Photo: Lydie van der Meer

Temporary employment came to the Netherlands largely through Frits Goldschmeding, chairman of Randstad, who created the company as part of a student project *25 years ago. This* has become Europe's third largest player behind the Swiss-French Adecco and Manpower.

Meanwhile, temping has become a widespread and socially acceptable form of employment in the Netherlands. Roughly 3.5 per cent of the Dutch working population is hired through temping agencies, compared with only 1.5 per cent in France and less than 1 per cent in Germany, *and analysts say the* Dutcb numbers could reach about 5 per cent in less than 10 years.

"Firing employees still entails very tedious and time-consuming procedures in this country," explains Mr Smit." *As a* result Dutch employers gladly resort to temporary employment, an alternative that gives them some flexibility while also providing employees with very decent social protection."

Nowadays, a large part of the growth in the Dutch market comes from the shift within the segment of "flexible jobs" that makes up about 10 per cent of Dutch work contracts. Employers are increasingly turning to "external flexibility" through temping agencies – instead of using internal instruments, so that temporary employment is growing at a much faster pace than the overall "flex" market.

Vedior is pursuing even quicker growth by focusing on the top end of the market, such as information technology, *as well as sometimes* downmarket specialities. For example, it has bought an agency that specialises in unskilled jobs for fruit and vegetable pickers. "This may not sound very glamorous but the service is so specific, including shuttles to pick up workers from home, that it still enables us to net very interesting margins," says Mr Smit.

Through a deal with the government employment services, Vedior has also gained access to unemployment files. "Making these people employable often requires as much professional training as psychological assistance, but the set-up is unique in Europe," says Mr Smit. In collaboration with the Start agency, Vedior hopes to create about 30,000 (subsidised and low-paid) assignments *this* year *on the basis of this* agreement. From next year the market should be further boosted by changes in labour regulations. Under the proposed reforms, temporary employment agencies will have to offer their temps a permanent contract when they have completed assignments over a period of 18 consecutive months for a single employer, or after three years of regular assignments. On *the other hand*, the *current* rule dictating thet a temporary contract may not last longer than three months will be abolished.

"This will force us to become employers ourselves, instead of just acting as intermediaries," says Sjaak Six, managing director of Adecco in the Netherlands. "But on the whole the reforms should have a positive impact on the market, because it will also help us to bind the temps to our agency." Besides, Mr Smit estimates that the proportion of temps who fail to obtain a permanent contract in three years reaches only *about 5 per cent*.

With a Dutch turnover of some Fl 800m last year, Adecco is the fourth largest player, making it the most prominent among the foreign groups who have spread into the country. Vedior admits that this international interest is adding to the pressure on margins and raising the price of domestic acquisitions.

As a result, the largest Dutch temporary employment companies have themselves set their sights on foreign markets to guarantee further growth. Thsy see many opportunities in other European countries, where legislation is atarting to loosen up – and especially in the German market, that is still underdeveloped and hugely fragmented.

Randstad, tha undisputed *Dutch market leader* with a share of some 34.5 per cent last year, is already an established international player, and the acquisition of Bis has also strongly raised Vedior's European profile.

"The *Bis* transaction has propelled us onto the scene of European players, so that takeover candidates are now coming to us," says Mr Smit. He believes that the worldwide market will soon be *dominated* by "no more than a handful of companies", and that the Dutch leaders are in good shape for the race.

TECHNOLOGY • by Simon Kuper

Betas start to edge ahead of arts graduate chiefs

Technical expertise has been seen as a slower route to a company car

The thing to be in the Netherlands today is a technician. That is because so few people are.

Pay for technical workers, from whizzkids to the lowly skilled, is *rising* fast. Computer programmers, the rarest species of all, get phone calls from headhunters almost daily. Companies are so desperate to recruit them that one offered balloon rides as a lure; one balloon landed on the middle of a highway. Other companies simply offer their employees bounties as high as Fl 30,000 for bringing in new staff. The automation sector, which has 200,000 employees, is estimated to need about 20,000 more specialists.

In the fast growing Dutch economy, with its official jobless rate of less than 6 per cent, the lack of technically trained workers could become the biggest bottleneck. Only one in 16 Dutch students takes a technical science, compared with ona in five in Germany. The proportion has baen falling sharply recently, just as in many other European countries, so the shortages are forecast to spread to maths, engineering and other tecbnical fields. A survey this year by VNO/NCW, the Dutcb employers' organisation, found that 64 per cent of companies already bad trouble attracting qualified staff. Politicians are expressing strong concern.

True, the Netherlands has little heavy industry that requires countless technicians. Fokker, the aerospace company, has gone hust, while Phillips, tha electronics giant, has shed workers. *Only 21 per cent of* Dutch workers are estimated to have a technical job, compared with 30 per cent in Italy, Germany and Japan.

The Dutch historically do not make things. "In the Netherlands we can do almost nothing," jokes Leo Overmars, director of the Dutch bankers' association. "We can't make capital goods. It's a disaster. Bnt one thing *we do* very well: trade and finance."

"Dutch companies supply South African coal to Turkey," marvels Arnold Verruijt, an engineering professor at the Technical University of Delft. Yet he has written a report saying that the country needs twice as many technical workers as it produces.

The rsason is that although the Netherlands is largely *a service* economy, its companies are avid users of computers. Internet use is among the highest in Europe and growing almost too quickly to measure. The "year 2000" computer problem and the approacb of European monetary union has raised demand for programmers. As more companies automate their processes, the demand for technical workers is expected to rise permanently. In the past, demand for them just went up and down.

Some companies, sucb as the airline KLM, are coping with the shortage by farming out technical work to countries such as India. A few foreign engineers have come to tha Netherlands. But importing labour is not seen as the solution, because few foreigners speak Dutch or understand the country's particular needs. A Dutch civil engineer, when starting a project, always considers the local water level, notes Mr Verruijt. A German or Frenchman does not.

So bow can the Natherlands start producing more technically trained people?

"It's terribly difficult, because it's a cultural problem," says Paul Huijts, deputy director of technology policy at the ministry of economic affairs. Many Dutch people still regard technicians as workers in overalls doing badly-paid, dirty jobs at heavy machines. "Peopls think of types of work that havan't been done for years," says Mr Hujits. Perhaps for that reason, Dutch women are even less likely than women in other countries to take technical courses.

Technical degrees are considered difficult, and are seen as a slower ronte to wealth and a company car than studying law or economics. "Why take a tough degree and become a physicist if you can take an easier degree and hecome his boss?" is a common question.

Technical work is seen as "a one-way *street just for* nerds," says Joke van den Bandt, technology policy secretary at the VNO/NCW. "Every child says, 'Oh God, no'." A computer company based above ber office finds itself compelled to *fly in* programmers from all over the world.

Perhaps the names say it hest: arts students are known in the Netherlands as "alphas", while science students are *betas*".

The government, companies and universities are running schemes to improve the image of *betas*. Professor Verruijt has invited 60 school pupils to his *faculty* to talk about earth movements – not a Dutch speciality, he concedes, but a sexy subject. His university and companies are paying grants to some students to take technical degrees. Workers are being retrained.

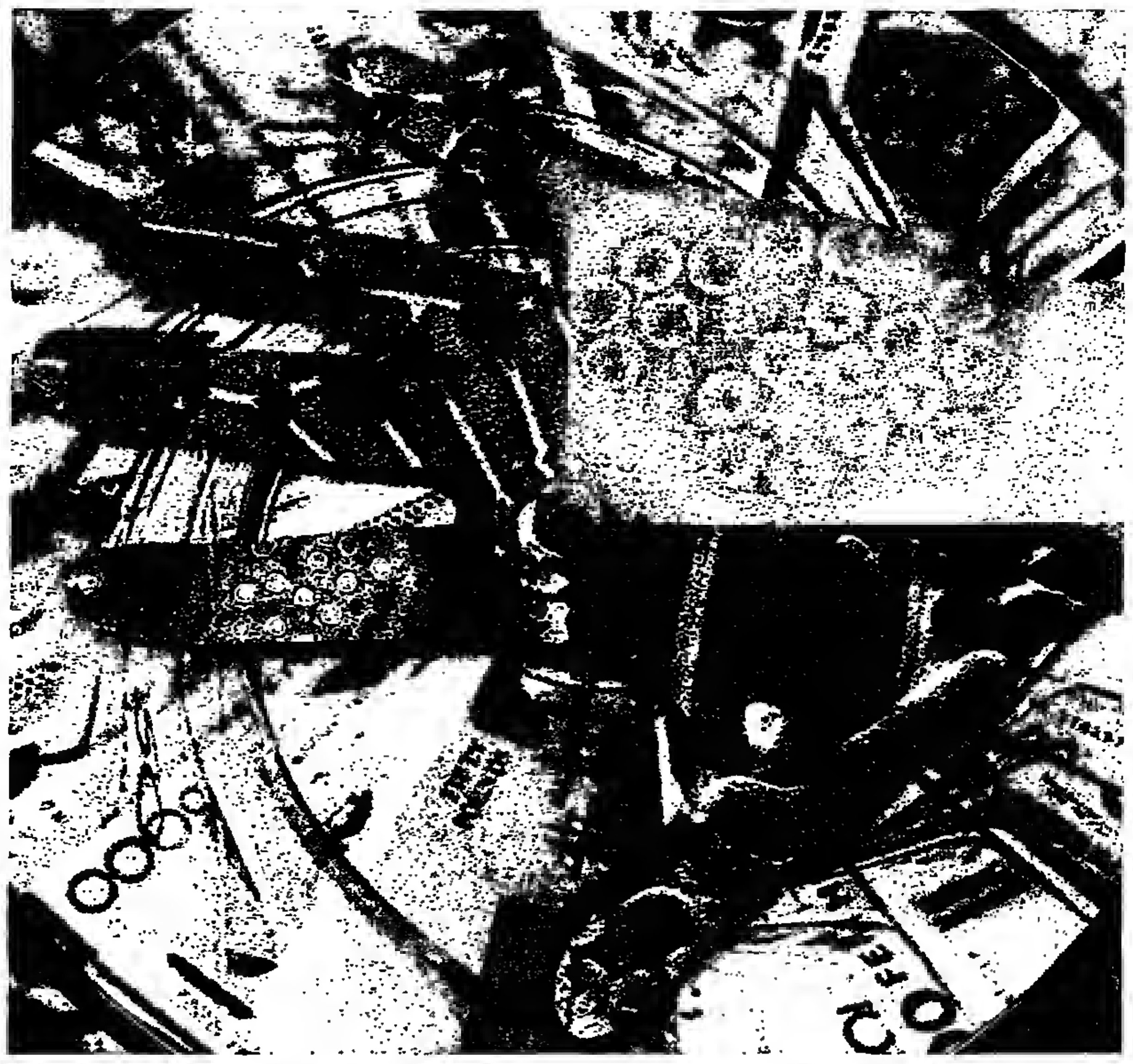
But all groups agree that the solution must come from the market. When technical workers start earning more, more people will enter the field. That, indeed, is just starting to happen. A report in 1995 showed that from 1985 to 1992 *alphas*, whether highly skilled or not, earned more than *betas*. Low-skilled technicians earned 12 per cent more than their non-technical equivalents.

Last month, a report by the Researchcentrum voor Onderwijs en Arbeidsmarkt, which researches education and the labour market, showed that betas now earn more. "We need more reports like that," says Mr Verruijt. The message may already be feeding *through*. This academic year, the number of students at his Tachnical University was forecast to fall by 5 per cent. Instead, it rose slightly. That is what the economy needs.

BIOTECHNOLOGY

The scientific choices are vast but making the right business decision is proving as vital as the development of a good product. **Daniel Green** reports

Corporate rules of natural selection



The biotechnology industry is poised between triumph and disaster, again. In the past few months company shares have collapsed or shot up, depending on the progress of drug trials, alliances with the pharmaceuticals industry and the mood of the market. New company flotations have dried up in London but appear to have picked up in the US. Sales of the few products that are on the market have alternately disappointed and excited investors.

The forces that buffet the industry range from fads in science, to the confidence of the pharmaceuticals industry, through to stock market sentiment. Understanding how these forces change and interact can provide clues to where the industry will go next.

But first it is important to define "biotechnology". To scientists it means making molecular changes to living or almost-living things such as proteins. This could involve using powerful computers to design new proteins that can be used as drugs, or genetically engineering sheep to produce medicines in their milk.

But to governments, industrialists and investors, biotechnology is about start-up companies that use patented science to develop healthcare products.

The vast majority of these companies have been formed since the early 1980s when the US government began a programme to move the results of federally funded scientific research into the private sector.

That coincided with a time when Californian venture capitalists were seeking new vehicles in which to invest the money they made in information technology. This collision of science and money has resulted today in 300 US biotech companies being listed on the Nasdaq exchange and at least 1,000 more being privately held.

In Europe, venture capital and an entrepreneurial culture are more scarce. Nevertheless, the number of European biotech companies grew 23 per cent between 1995 and 1996 to more than 700, according to accountants Ernst & Young.

This simple history conceals two decades of cyclical fortunes. In 1993 several drugs aimed at treating septic shock failed at the final hurdle before being submitted to drugs regulators. The subsequent capital famine lasted almost three years and led to job losses. Many young companies were driven to sell their developing technology to the pharmaceuticals industry.

The rally, when it came, was short lived. Another, earlier this year, slowed when high profile drugs from AutoImmune, Cambridge Neuroscience and others proved disappointing in final medical trials.

This time, the suppliers of capital rediscovered their courage within five months: between August 29 and September 30 this year, the average biotech stock in the US rose in share price by more than 14 per cent, according to the industry newsletter *Bioworld Financial Watch*.

These gyrations are about more than share prices. Governments across the developed world increasingly see biotechnology as one of the growth industries of the 21st century. Germany has earmarked DM150m for the industry, and German biotech company Qiagen is one of Nasdaq's 1997 stars.

Last year, the UK launched a government-backed "crusade for Biotechnology" and already has the biggest biotech sector in Europe by far.

France this year pledged FFr1.5bn to support the industry. Genset, also Nasdaq quoted, has seen a rise in shares by almost half since January, thanks partly to a deal with Chicago-based diagnostics company Abbott Laboratories to apply genetics research to diagnostics.

So how should investors, employees or governments regard the sector's prospects? They cannot look to company accounts: with a handful of exceptions, biotech companies lose money. Their share prices depend not on current trading but on how research might turn out several years from now.

The experienced take several approaches, all far from foolproof. Most important is the use of the pharmaceuticals industry as an auditor of scientific strength.

Biotech companies are founded on scientific ideas developed over an extended period. They usually lack expertise in drug development (putting new medicines through clinical trials) and marketing, but US research suggests that they are twice as efficient at turning research and development (R&D) into prodncts as pharmacenticals. They are hungry for cash from outside sources because they have no sales revenue.

Pharmaceuticals companies are among the richest in any industry but face a problem: their in-house research and development division are not producing enough new drugs to sustain growth rates. According to a survey by Andersen Consultants this month, the top ten companies need to improve R&D productivity no less than tenfold to hit their target growth rates.

That makes biotech and pharma a perfect match.

Indeed two companies, Pfizer of the US and French-owned Rhône-Poulenc Rorer, have set up information networks for their biotech company partners to help exploit links and overlaps between their technologies.

A typical pharma-biotech deal will involve a series of payments by the large company, the loan of staff, the funding of clinical trials (the most expensive part of research and development). In return, the pharmaceuticals companies gets marketing rights to the drug.

The UK's Celltech has five such partnerships: with US companies American Home Prodncts, Merck and Schering-Plough, with Germany's Bayer and the UK's Zeneca.

Under the Merck deal, for example, Celltech receives up to £31m in staged payments as research progresses, and a royalty on products that go on sale. In return, Merck gets global marketing rights.

Such deals share both risks and rewards. Celltech has to share any profits with its partners. But the failure of the Bayer drug showed how partnerships are a cushion when disaster strikes: Bayer lost more than £100m, Celltech just a few million.

For most, such trade-offs are worth it. There is a minority, however, for whom this approach is not enough. They are inspired by California's Amgen, the world's most successful biotech company, founded in 1980 and now with a market value of $13bn.

The chief executives of companies such as British Biotech, and Biogen and Tularik in the US, point out some of the disadvantages of powerful partners. Losing control of a project can be disheartening and sometimes damaging.

David Goeddel, Tularik's chief executive, has a solution: "We want to be a pharmaceuticals company."

This high risk approach has its fans. Tularik is a privately held Californian company whose last round of financing, with Swiss fund Pharma Vision 2000, valued it at an almost unheard of $400m. Tularik does not even have its first compounds in clinical trials.

Mr Goeddel has three great advantages over other biotech chief executives: he is widely regarded as a genius, he has a strong record at Genentech, one of northern California's most successful biotech companies, and his area of science is fashionable.

In science, different approaches are alternately hailed and dismissed. Some of today's favourites are:

- genomics, the detailed study of genes and their functions;
- gene therapy, where genes that cause a disease are replaced;
- gene chips, in which fragments of genetic material are attached to silicon chips and thence to computers;
- signal transduction, influencing the way in which genes are switched on and off (Tularik's speciality).

The investive nature of science combined with equity-based financing means that the biotech industry has an extraordinary resilience. Biotech companies can be continually reoewed. If a project fails, a new one will be started with whatever cash is left, usually by licensing new research results from academia.

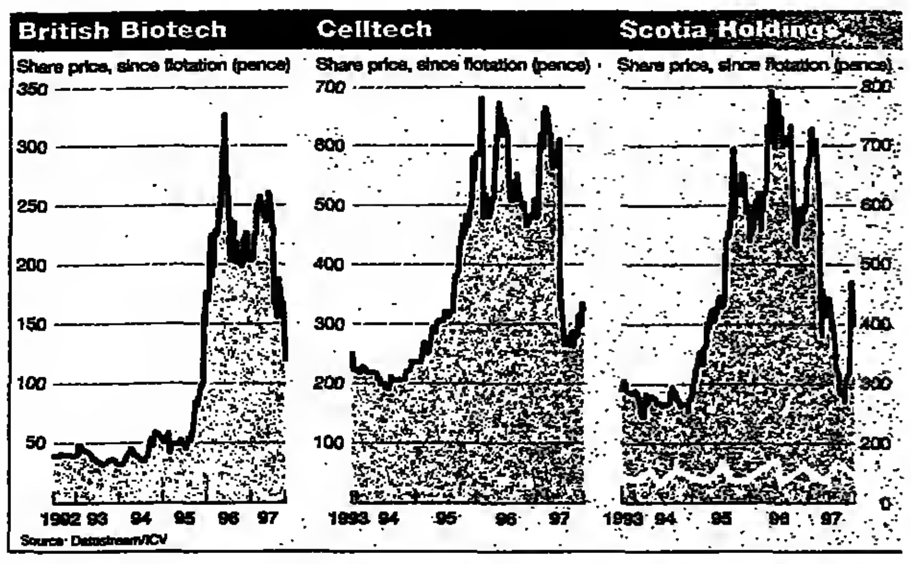
Science itself moves erratically, with many more blind alleys. There will always be disasters, but as long as there is progress and a method for transferring the fruits of such progress into private companies, biotech will promise triumph.

IN THIS SURVEY

UNITED KINGDOM • by Daniel Green

Fission of business culture

The industry is multiplying faster than expected - but it remains difficult to predict



Source: Datastream/ICV

Nineteen ninety seven will go down as the year that the UK biotech sector got a dose of reality. At least that is the view of veteran US investors, who have long regarded the UK as the place that pays too much for biotechnology stocks.

For UK investors, the series of setbacks endured by companies as well known as British Biotech, Scotia and Celltech came as a nasty shock. Most companies, even those not delivering bad news, have suffered as bruised investors chose to park their cash elsewhere for the time being. The long-term prospects of biotech are hard to dispute, although this is of little comfort to those trying to overcome today's problems.

The misery of tha UK biotech sector is not just about shareholders. The stockmarket is one of biotech's two main sources of capital (the other is the pharmaceuticals industry). Without a robust performance from quoted companies, institutional investors hesitate to buy into new and rights issues. Indeed, the window for biotech flotations in the UK has been shut since late summer, and biotech specialists in banking and public relations are courting pharmaceuticals companies instead.

That could undermine one of the UK's fastest growing industries. Between 1994 and 1996, the number of biotech companies researching new drugs doubled, according to consultants Arthur Andersen. There have also been strong rises in the number of diagnostics companies and in those using biotechnology for agricultural and environmental applications.

And there is mounting evidence of the problems that are being caused to the sector. Several private biotech companies have postponed their flotations. Skye Pharma's rights issue in September – biotech's most recent capital raising exercise – had to be sold at 45p a share, compared with the 75p it mustered in a 1996 rights issue.

This amounts to the biggest cash crunch the UK biotech sector has faced in its 17 year existence. But biotech veterans have experienced difficulties before and believe that it is only a matter of time before the situation improves.

UK biotech was born on November 11 1980, offspring of the Labour government of the 1970s. Its siblings were Inmos and Nexos, semiconductor and office automation companies respectively. All three were part of a government scheme to ensure that the UK participated fully in the commercialisation of new technologies.

Celltech's public sector childhood was not a happy one. The quality of research was high, but the company found it difficult to turn that science into products for clinical testing. By 1990, when the company was reorganised to make it more commercial, the private sector had produced its own biotech companies.

That first generation, including British Biotech, Xenova, Scotia and Celltech, came to the stock market market in around 1993. After a hesitant start, their share prices rose rapidly, attracting a much larger second wave of companies to the market last year.

Now there are 38 companies listed in London that can loosely be described as biotech. They range from British Biotech, with a market capitalisation of almost £1bn down to tiny Biofocus quoted on the Ofex market and with a market capitalisation of about £1.5m.

Although this is still small compared with the 300 or so listed in the US, the breadth of approaches and technologies is comparable. More than half the quoted companies are searching for new drugs. Cancer is a popular target because it kills so many people and because existing treatments are not very effective. Other areas of research range from anaesthetics and asthma to schizophrenia and vaccines.

Some companies are selling tools to increase the efficiency of drug discovery, an area which has spawned some of the highest profile US companies. These range from software to design molecules and methods to speed up the selection of potential drugs from large numbers of candidate molecules, through to genetics.

Those not involved directly in drug research include companies in diagnostics, such as Dundee's Shield with a potential replacement for cholesterol tests, or in medical devices, such as Powderject's needleless injections.

The total makes the UK easily the biggest biotech sector in Europe. Only a handful of companies from continental Europe – spread between France Germany, the Netherlands and Denmark – are listed, mostly on Nasdaq.

The UK industry is beginning to assume critical mass. This is because of the rapidly growing number of privately held companies, and an apparent change in attitude among academic researchers who once spurned the world of commerce.

A brief survey by the FT uncovered more than 50 privately held biotech companies at various stages of development. Some of these businesses consist of little more than a scientist and a patent *looking for funding*. But others are established businesses that in happier times would already have achieved stock market listing and respectable valuations.

The pace of growth is continually taking even senior insiders by surprise. A senior executive at Oxagen this summer believed he was joining the UK's only genomics [the application of the increased understanding of how human genes work] company. As the table in this survey shows, there are at least four such companies.

Fortunately for most of these companies, capital is pouring into early stage investment funds even as it is being withheld from public companies.

Most of the specialist UK biotechnology venture capital investors have raised new money this year. They include Rothschild, Merlin, Abingworth, Reabourne, Apax, the Prelude Trust and a Medical Research Council fund.

At an even earlier stage, there has been a flowering of regional organisation devoted to fostering new biotech start-ups. They include the Scottish Biomedical Research Foundation, the Eastern Region Biotechnology Initiative, and a London biotechnology initiative. A brief survey is included separately on this page.

The trouble is that all these organisations ultimately rely largely on healthy stockmarket performances by established biotech companies.

Some might argue that good science will always find capital from the pharmaceuticals industry. But the US experience has shown that dull stock markets allow pharmaceuticals companies to buy biotech-invented technology cheaply.

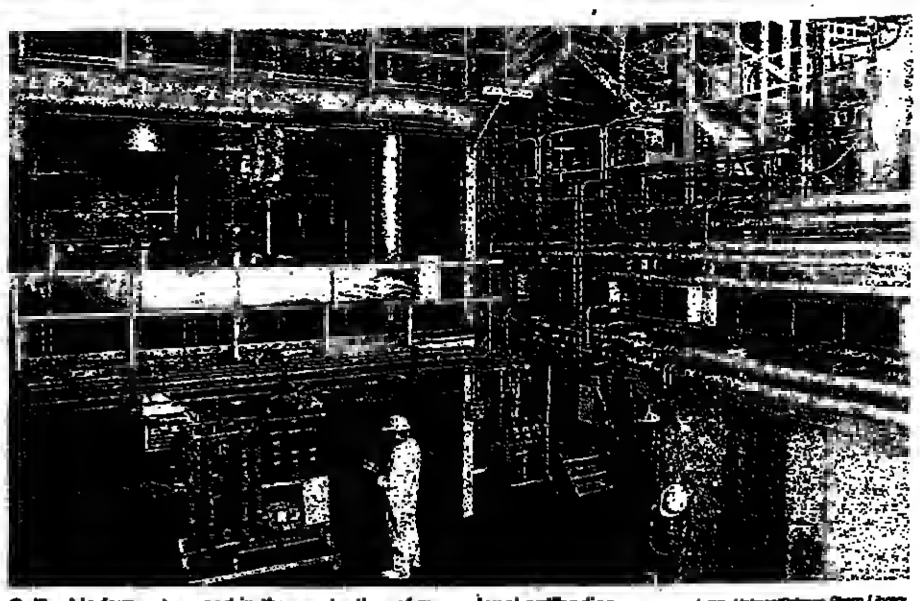
So what, if anything, will restore confidence in public biotech companies? The answer is simple: success in clinical trials and in convincing health regulators. Most of this year's trouble has been the result *of failures* in trials, especially from Celltech whose drug for septic shock failed in spectacular fashion in May. More than £100m had been committed to tha project, largely by Celltech's pharmaceuticals industry partner Bayer.

The news over the next few months might involve partnership deals or regulatory approval for drugs from Cortecs, Scotia, Therapeutic Antibodies and others.

But the real question mark lies over British Biotech's cancer drug marimastat. So many hopes are riding on its success that failure would cast a long shadow over the sector. Those results are expected in the first half of 1999, so any improvement in market sentiment between now and then is likely to attract a rush of flotations and rights issues to avoid the possibility that a marimastat failure would depress sentiment once more.

The only thing that is certain about tha biotech sector is that there will be both pleasant and nasty surprises between now and marimastat's results. Some will come from the most unexpected of sources: in January this year one London-based biotechnology analyst said that shares in Scotland's PPL Therapeutics were not worth holding because no news of progress was expected for at least two years. Two months later Dolly the cloned sheep made PPL the most famous biotech company in the world. A couple more of those, and biotechnology will begin to live up to its billing as an important industry for the 21st century.

Turn to page six for a survey of the activities of UK biotechnology companies.



Celltech's fermenter used in the production of monoclonal antibodies — James Holmes/Science Photo Library

PROFILE

A rivalry to attract new companies

Regional investment draws biotech and the capital that comes with it

Such is the rate of growth in UK biotechnology that regional initiatives to promote it are springing up in many regions helped by government grants earlier this year to eight projects.

Scotland has been foremost in exploiting its science base, and the cities of Oxford and Cambridge have long had science parks to attract biotech companies.

These locations are facing increasing competition for the investment that biotech companies bring. For example, York city council has joined forces with York University to create Bioscience York to promote the region as "a world-renowned centre of bioscience excellence".

The claim is based largely on the presence of medical devices company Smith and Nephew and on government research at the ministry of agriculture, fisheries and food's central science laboratory.

Across the Pennines, the Manchester Biosciences incubator plans to have its own £12m building, attached to Manchester University's School of Biological Sciences.

Manchester University is investing £3.8m - and its portfolio of bioscience patents. But most of the funding will come from the private sector.

Meanwhile London – not normally thought of as an industrial location but possessing the biggest concentration of scientific research in the country – has attracted a private sector programme called the Prospero Centre.

Prospero aims to offer laboratory and office space – in short supply especially in the Cambridge area – as well as expert advice and access to finance. The plans for 75,000 sq ft of space are still at an early stage, however.

Cambridge and Oxford are set to fight back. Both have busy organisations promoting their regions, with Cambridge set to get a boost from the Eastern Region Biotechnology Initiative. It covers six counties east and north of London and plans to spend about £200,000 a year promoting the region.

Daniel Green

SCOTLAND • by James Buxton

Clones make the world take note

Dolly the sheep focused attention on Scotland as a research centre

A sheep's egg is injected with an adult udder cell at the Roslin Institute in Edinburgh — Philippe Plailly

Scotia, the quoted UK pharmaceutical company, used to be based in Guildford, Surrey: bandy, you might think, for corporate customers and institutional investors. But about 18 months ago it fulfilled its long-standing aim of moving to central Scotland by building a new headquarters in Stirling.

Scotia is an unusual company, and not just in its concentration on products which act on lipids – fatty molecules that make up the membrane of cells – rather than on proteins or genes.

It believes in dispersing its research and production into small units far from big conurbations, such as Callanish on the Isle of Lewis in the Outer Hebrides, Carlisle in Cumbria, and Nova Scotia in Canada.

David Horrobin, its founder and chief executive, says that it chose Scotland for its head office, "because the Scottish universities have proved more responsive to us than others, and because about half our clinical trials are carried out with Scottish hospitals".

The company also found that Scotland was a good place to recruit scientists and an attractive environment for luring scientists and executives away from the south of England.

Scotland is one of the UK's three main clusters of biotechnology, the others being the Cambridge area and the London-Oxford corridor. Scottish Enterprise, the development agency, reckons there are 43 biotechnology and 48 biotechnology-related companies in Scotland, employing 5,382 people – two and e half times more than in 1993.

John Bremner, head of the biotechnology group at Scottish Enterprise, points, like Dr Horrobin, to the universities as a key to Scotland's strengths in the sector. Universities in Scotland produce a higher percentage of biotechnology-related graduates than others in the UK.

Biotechnology-related departments at Glasgow, Edinburgh, Dundee, Strathclyde and Heriot Watt (also in Edinburgh) universities score highly in external assessments of their performance, with Aberdeen, St Andrews and Stirling not far behind.

"Most new biotech companies in Scotland originated in a university, or in a technology based on a university," Mr Bremner says. Others are spin-offs from existing companies.

The biotech industry in Scotland is humming at the momant, with companies expanding and developing products, new companies being formed, and advances being made in research at the universities. Scottish Enterprise's biotechnology group hopes to see 4,000 more jobs created in the next four years.

Nothing has done more to awaken the world to Scotland as a biotechnology centre than Dolly the sheep, the world's first clone of a large adult mammal, created from cells taken from other sheep.

Dolly, whose existence was revealed early this year, was produced by PPL Therapeutics, a biotech company based in Midlothian, and the nearby Roslin Institute, a publicly-funded research institution. PPL, which had been backed by Scottish Enterprise, was floated on the London Stock Exchange in 1996.

PPL and Roslin are now beginning to "breed" sheep containing a human gene whose milk will produce a human protein that can be extracted and given to human patients, raising the possibility of treating a range of diseases from haemophilia to osteoporosis. A sheep called Polly containing a human gene was born in July.

Another quoted Scottish biotech company is Shield Diagnostics, which specialises in products for disease testing. Shield has a relatively long history for a biotech company: it was founded in Dundee in 1982 by entrepreneurial scientists from Dundee University and the city's Ninewells hospital.

Shield was initially backed by the Scottish Development Agency (the forerunner of Scottish Enterprise) and, later, by English-based venture capital funds led by Apax Partners. It had a bumpy history until its stock exchange flotation in 1993. This year its shares leapt eightfold in a few days, before falling back, on hopes for Shield's new test for heart disease.

This year saw the flotation of Core Group, a drug delivery company which specialises in products aimed at improving the performance of existing drugs.

Core Group is based at Kilmarnock, south-west of Glasgow. Its lead product, a morphine suppository, is awaiting regulatory approval in the UK. The company owns the licence to a sustained release technology used to control drug dosage more efficiently.

A recently formed company is Neuropa, which specialises in the study of gene function as a tool for drug discovery. It is preparing a database which large pharmaceutical companies will be able to use in research on neuro-degenerative diseases such as Alzheimer's and Parkinson's.

The chiaf executive and co-founder is Wayne Davies, a professor of biotechnology at Glasgow university, and the company has recently received a £1m investment from 3i through its Glasgow office. Earlier, it was helped in preparing its business plan by Targeting Technology, an arm of the Glasgow Development Agency which is part of Scottish Enterprise.

What is notable about the development of the Scottish biotechnology sector is that most venture capital funding comes either from companies based in England or from public-funded institutions, mainly offshoots of Scottish Enterprise. Few Scottish-based fund management companies are conspicuous investors in Scottish biotech companies.

Scottish Enterprise's biotechnology group usually makes equity investments of around £100,000 in companies. Along with Lothian and Edinburgh Enterprise it has put £250,000 into a fund set up at Edinburgh's Western general hospital by the UK-wide Medical Research Council to help new biotech companies.

Meanwhile, Scottish Enterprise and 3i have launched the Scottish Technology Fund to provide capital to high technology ventures in various field, including biotechnology.

Scottish universities collaborate in the Scottish Biomedical Foundation which attracts funding for research projects. The foundation recently arranged for Yoshitomi Pharmaceutical of Japan to establish a neuroscience research institute with Strathclyde and Glasgow universities – another vote of confidence in Scotland's scientific base.

هكذا من الأصل

AGRICULTURE • by Alison Maitland

From bare facts to nervous optimism

The angst over genetically altered food has led to tensions between the EU and US

Genetic engineering of food crops stirs powerful emotions. This month, a small group of people stripped naked on the roof of a London advertising firm which is promoting Monsanto, the US biotechnology company, by communicating the benefits of genetically modified farm products.

The activists, from the Genetic Engineering Network, a coalition of organisations opposed to genetic engineering, said they wanted to expose the "naked truth about the genetic cover-up".

Eye-catching stunts have abounded across ths European Union in the past year. Genetically engineered crops and foods are becoming more common, and so are protests by environmentalists.

Tomato paste was the first high-profile entry on to the market two years ago, made from tomatoes that stay firm longer. Because processing cost less, the paste was ehsapar and ratailers reported little resistance to the clearly labelled cans.

For some time, genetically modified (GM) micro-organisms have been used to produce an alternative to calf rennet to make vegetarian cheese. In the US, other modified crops that have won regulatory approval include potatoes, squash, oilseed rape and cotton. There has been no consumer uproar and many farmers appear to have adopted them enthusiastically.

But two crops originating in the US have focused the attention of governments as well as "green" groups on the drawbacks of agricultural biotechnology. They are a soyabean developed by Monsanto to resist treatments with Roundup, its glyphosate herbicide, and maize engineered by Novartis, the Swiss biotechnology group, designed to kill the devastating European corn borer pest.

Both offer financial and practical benefits to farmers and have been approved as safe for human and animal consumption by the European Commission. But concerns remain. One is that the maize, modified with an antibiotic-resistant "marker" gene, might confer resistance in animals and then humans, though scientists consider the risk to be tiny. Austria and Luxemhourg have threatened to take the commission to court for ordering the lifting of its import ban on the maize.

Another concern is that genes in modified crops that are resistant to weedkillers may jump into nearby plants, creating "snperweeds" thet will need to be treated with more powerful chemical sprays. Recent field trials of modified oilseed rape in Europe showed its herbicide resistance spreading into surrounding conventional crops.

The soyabean is also controversial because of its pervasiveness in processed food. An estimated 60 per cent of these foods contain soyabeans or their derivatives. European farmers, retailers and consumer organisations say the altered soyabeans should be segregated so that consumers can choose. The US industry has refused to segregate on the grounds of cost and logistics.

This year, the second year of commercial planting, about 20 per cent of the US soyabean crop is estimated to be genetically modified. Without segregation, new EU labelling requirements seem likely to mean all foods containing aoya will be labelled as genetically modified in case they contain a mixture of altered and conventional beans. Critics say that will hardly give consumers a choice.

Supermarkst shelves will soon have to display such labels. And more novel crops are in the pipeline. Nearly 60 different crops have undergone field tests in at least 34 countries, according to Monsanto. The oumber of acres planted globally for commercial use has risen from about 5m last year to 30m.

Genetically altered tomato paste is sold in British supermarkets. Enhanced fruit and vegetables may be available soon Cathryn Atkinson

The angst over maize and soyabeans has led to trade tension between the US and the EU. But are European consumers really worried? Opinions vary from country to country. Groups opposed to genetic engineering say most consumers back them.

The biotechnology companies say consumers teod to feel more positive the more they know about the immediate eovironmental benefits, such as the drop in chemical use. Monsanto estimates US cottoo growers used 250,000 gallons less insecticide last year thanks to its boll-weevil-resistant plants. Farmers bensfit financially – Monsanto says increased yields and lower chemical treatments saved its cotton growers an average $33 an ecre last year.

Cost savings should eventually result in lower food prices, says Vernon Barber, food science adviser to Britain's National Farmers' Union. But part of the difficulty for biotech companies in winning over European consumers is that "there is no obvious immediate consumer benefit".

Consumer knowledge appears limited. J. Sainsbury, the UK supermarket group, found in a survey this spring that 70 per cent of customers questiooed were unaware of genetically modified food. Of those who were aware, most were negative or unsure, saying they lacked information. Only 5 per cent, however, said they had changed their eating habits to avoid it.

So the only other immediate beneficiaries appear to be the agricultural biotechnology companies, which include AgrEvo of Germany and Zeneca of the UK, and their shareholders. Monsanto, for example, says its total return to shareholders rose 234 per cent between 1991 and 1996.

Bnt research costs are huge, amounting to $728m (£449m), or 8 per cent of sales, for Monsanto alone in 1996. Much, therefore, depends on winning swift regulatory approval. While this currently happens in North America, the pace is much slower in the EU. Under the "deliberats release" directive, the Commission has to oversee a complex approval process if any of the 15 member states raises questions over a new product.

Following the recent controversies, ths directive is being revised, with the likelibood of more rigorous demands for information about novel crops, says Mr Barber.

In a few years, the biotechnology industry is promising tastier strawbsrries and potatoes, more nutritious vegetable oils and naturally coloured cotton that does not need dyeing. But first it must win over consumers in the EU, and overcome its regulatory burdles.

PATENTS • by Diana Sternfeld

Legal debate widespread

Ownership of man-made life, as an alternative to nature, excites strong opinions

Genes are the codes that define living things. Some say "tbey are life itself". These kinds of sentiments help explain the public debate surrounding genes, not least in respect of their patentability. This is an area normally viewed as highly technical, exciting interest only in dry and dusty patent lawyers.

Patent law treats genes and genetic engineering in just the same way as any other invention. To be patentable in Europe (as covered by the European Convention), such an invention must be:

- new;
- not "obvious";
- capable of industrial application; and
- "patentable subject matter".

To be considered new, an invention must add to the current state of knowledge. A new method of isolating a gene, or an isolated gene with a new activity, or a new industrial use for a gene may fall into these categories and be patentable.

A gene, as it occurs in a natural element such as the human body, will not be. It is not new – it has existed as part of the human genome since the beginning of life.

An invention is not considered obvious if what could be referred to as the "inventive step" of the patent would not have been clear to the average specialist in the field. The European Patent Offics deals with this by looking at inventions as technical solntions to technical problems. For example, were the tools employed in the invention already availabls to the inventor and, more to the point, would he or she have used them?

If the invention can be made or used in any kind of industry it will be considered capable of "industrial application". In the field of biotechnology this means if a technical purpose for an invention is not described – even if it is not the purpose for which it is ultimately used – it is not patentable. Patentable subject matter is defined by exclusion. Any:

- discovery;
- scientific theory;
- variety of animal or plant; or
- invantion contrary to "ordre public" or morality

is not patentable subject matter.

A gene, existing in its natural state (as an element of the genome of a person), is not patentable subject matter. It already existed and was "merely" discovered. In Europe, where a gene cannot be patented, it is possible to patent an artificially synthesised gene or the replication of genetic information contained in the "natural gene". It is not the "natural gene" itself but it is a very good copy – and can be made to do the same joh – that is transmit the same message and express thc same proteins.

Cloned animals, like this calf, cause stirs in the legal world AP

The position on genetically engineered plants and animals is less certain. The uncertainty revolves around the morality and "variety" exclusions. The "morality" arguments have formed the basis of widespread debate, exciting strong opinions and much controversy. Patent law would not seem to be the most appropriate forum to determine issues that, as with many developing sciences, require public debate and which may ultimately lead to guidance and legislation from both national and international bodies. Very recently, the Council of Europe instructed its executive to formalise a ban on the cloning of human beings in a protocol to the European Convention on Biomedicine.

The issue on the "variety" exclusion is whether genetic engineering is a technical, biological or microbiological process and, thus, whether a genetically engineered plant or animal is a "variety".

Genetically sngineered plants or animals, including transgenics such as Polly the sheep, are those that have been created or modified by a technical or microbiological process usually brought about by human intervention. The natural biological processes of the plant or animal have also had a role to play in the creation of the genetically engineered plant or animal. It is because of this that there are arguments about whether a genetically created plant or animal is a "variety" within the meaning of the law and, therefore, should not be patentable.

In the Harvard Oncomouse proceeding before the European Patent Office, it was decided that animal and plant varieties are excluded from patentability, but not animals and plants per se. As the Oncomouse – a mouse engineered to develop cancer – was held not to be an "animal variety" it could, therefore, be patentable. The decision rests on what constitutes patentable snbject matter, and specifically, what forms a "variety".

The US position on patenting of genes and ganetic engineering is, perhaps, better defined than in Europe. The "living character" of inventions does not prevent them being patentable subject matter. The qnestion to be answered is whether the invention constituted a "manufacture" or a "composition", whether in effect it was "man-made" regardless of it being a life-form. Therefore, genetically engineered plants and animals are considered patentable subject matter.

A European Union directive on the Legal Protection of Biotechnological Inventions has been under debate for soms time now. That directive is aimed at harmonising the manner in which member atates deal with biotechnological inventions and ensuring that national laws permit patent registrations for biotechnological inventions which meet the criteria to be patentable.

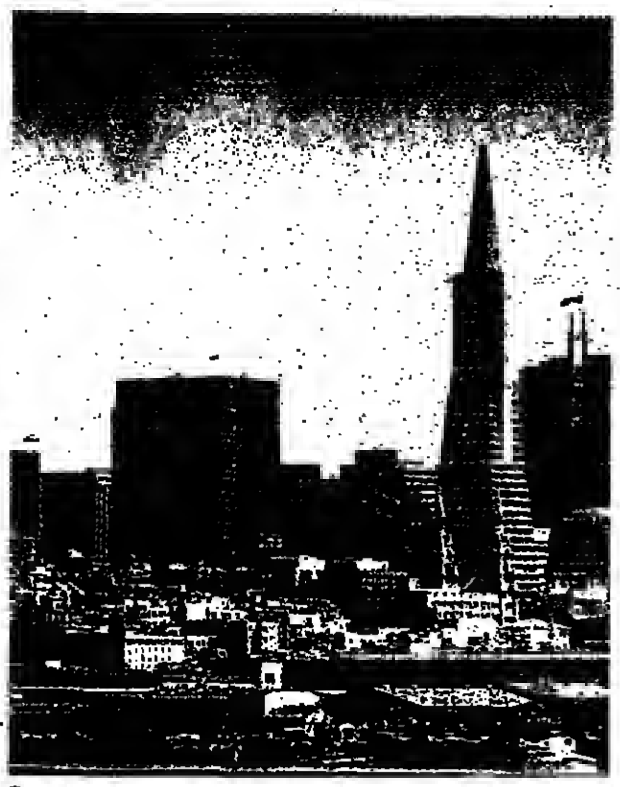
When these outstanding issues are resolved, either by the legal forums or legislation, the interest in this aspect of these exciting new industries may declins – and it will revert to the hands of those dry and dusty lawyers.

Diana Sternfeld is a partner with UK solicitors Stringer Saul, specialists in pharmaceuticals and biotechnology.

CALIFORNIA • by Daniel Green

Too crowded for comfort

Hundreds of companies need support over the long term – a difficult quest



Dozens of companies are established near San Francisco Glynn Genin

There are 39 stock market listed US biotechnology companies beginning with the letter A. With more than 300 companies in the sector as a whole, and no more than a handful making a profit, it is not surprising that some in the US are asking whether the sector is overcrowded and overblown.

A quick back-of-the-envelope calculation shows why. Estimates of the number of biotech companies in the US range up to 2,000. The costs of developing a new drug are roughly \$400m (although estimates range from \$100m to \$800m), and pharmaceuticals industry precedents suggest that only a drug with peak annual sales of at least \$350m is a clear money spinner for the company that invented it.

Most of those 2,000 companies are developing more than one prodnct, but each company, in a general sense, would be a success if only one project came to fruition. So for all 2,000 to become profitable businesses, they would require an overall investment of \$800bn and produce peak annual sales of \$700bn.

The biotech sector is not alone in trying to find new medicines. The mainstream pharmaceuticals industry is pumping in at least 10 times the biotech industry's research and development budget into its own R&D.

Since the entire US healthcare system today costs about \$1,000bn a year to run, of which less than one-fifth is spent on drugs, it is clear that taxpayers can only afford to pay for a small fraction of today's biotech companies to be successful.

One biotech venture capitalist likens it to the great railway boom in Victorian Britain where more that 400 railway companies were formed between 1846 and 1848. Rapid consolidation followed and a century later there was just one. (Today the figure is 28 as a result of rail privatisation.)

If biotechnology is to evolve along similar lines, then the first people to notice would be the bankers and venture capitalists. These professions rely on the existence of a voracious stock market appetite for the hundreds of biotech companies with which they are involved. Without this appetite, they could not realise their investments or make the fee income that is their living.

At first sight, the members of these groups confirm the oversupply of biotech companies. "We need fewer biotech companies, not more," declares Michael Dovey, managing director of the healthcare group at Montgomery Securities in San Francisco.

"There are *too many* companies in drug discovery," agrees Bob Curry of Silicon Valley venture capitalists Sprout Group.

Even Brooke Byers, senior partner in the best known Silicon Valley biotechnology venture firm, Kleiner Perkins Caufield and Byers, says: "Are there too many companies? Yes, in some areas there are too many overlaps."

One logical consequence of this population boom would be a wave of mergers and acquisitions (M&A) to take out the weaker companies. Indeed, some bankers are positioning themselves for a burst of M&A, and at least one large investor in the sector is said to be considering a biotech "vulture" fund to foster and make money ont of industry consolidation.

But the reality may not be so simple. For Mr Byers, the explosion in biotech is far from over; it is just the emphasis that is likely to shift. "There are not many untaken areas in drug discovery biotechnology. But there are new areas such as diagnostics, gene expression and toxicology profiling."

Besides, he says, "20 years is not very long for a scientific revolution. Genomics will create another wave of start-ups, and we are seeing the emergence of tools, as opposed to discovery, companies."

By genomics, he is referring to the explosion in research on how genes have their effect on the body. And by tools, he is referring to companies seeking better ways to invent new drugs. These might involve generating millions of different molecules at the same time, each one a potential drug, to new ways of choosing the best molecule from those millions of candidates.

Objections to the "imminent consolidation" theory do not stop there. There is the problem of who runs the merged entity – a central issue in an industry which attracts entrepreneurial types rather than those who prefer to work in teams.

"There are too many egos in this business," says Mr Dovey.

Nor is it easy to tell a biotechnology entrepreneur to put a troubled company up for sale. Biotech companies cannot go bankrupt because they have no debts (their cash comes from equity sales to investors and periodic payments from pharmaceuticals industry partners.) Without creditors, there is no one who can threaten to wind up the company, and a board of directors dominated by executives is unlikely to vote for its own demise.

For such reasons, even a banker like Mr Dovey is pessimistic on how much M&A will actually take place.

"Most biotech companies don't want to be owned," he says. "Most pharmaceuticals companies don't want to own them [because their small size contributes to their productivity and there is every risk that the brains will leave if the company is acquired]."

"They *should* be giving money back to shareholders if they fail, but they don't. They'll do something else with the money," he says. "Biotech companies don't go bankrupt because they have no debt, so they could be walking wounded for a decade."

And this kind of behaviour, along with a measure of frustration over how biotechnology has failed to produce many billion dollar companies, is turning some investors away from the sector entirely.

Sam Colella at Institutional Venture Partners (IVP), is frustrated by biotechnology's inability to generate anything near the success of information technology.

"The issue is that biotech returns are much less than those in information technology. The people who make the money are transaction people [such as bankers and lawyers]. It's OK, but not great, for entrepreneurs and venture capitalists."

IVP has roughly twice as many information technology investments as biotech, and its latest fund is even less heavily weighted in biotech than that, says Mr Colella.

If large-scale consolidation is not considered a viable option, and weak biotech companies drag down the reputation of the sector in the US, perhaps US investors would look overseas to Europe's relatively untapped scientific base.

But here too there are mixed signals. Most Californian venture capital investors seem content to invest locally. There are entrepreneurs queueing up for funding, and, venture capitalists like to keep a close eye on their investments. "Only within an hour's flying time" is the motto of one Silicon Valley investor.

That leaves the state of US, and especially Californian, biotechnology finely balanced. What ought to take place is a culling of the weakest companies. But this seems unlikely to happen, and the fortunes of the sector will continue to depend on the outcomes of a handful of clinical trials of potentially enormous drugs.

Like the lottery, the possibility that riches are around the corner, is persuading most to stay involved and encouraging the growth of the biotech sector even in overcrowded California. Like the lottery, investors appear ready to persevere even though so few of their tickets will bring the fortunes they seek.

Monoclonal antibodies hold potential for diagnosis and treatment of disease. They are obtained by fusing a normal antibody-producing cell with a rapidly-multiplying tumour cell Jeremy Burgess/Science Photo

Sharpshooters are ready for viral army

Monoclonal antibodies are at last being used in practical applications

Antibodies are the body's "magic bullets" against foreign invaders. The immune system has the capacity to design and make trillions of different antibody molecules, each shaped to recognise and destroy a specific germ or toxin.

Scientists have dreamed for 100 years of adapting nature's method to give the body extra ammunition to fight disease. This became a practical proposition in 1975 when *César Milstein and* Georges Kohler at the Laboratory of Molecular Biology in Cambridge invented "monoclonal" antibodies. This opened the way for researchers to make billions of identical copies of an antibody aimed at a specific target.

Until the 1990s, the practical application of monoclonal antibodies failed to live up to the hype that had greeted their discovery. For various reasons, antibody-based drugs ran into unexpected problems in the clinic and the first ones are only now coming on to the market.

The most important problem with the original monoclonals was that they were derived from mice. The patient's immune system tended either to develop an allergic reaction or to destroy the antibodies before they could reach their target. But recent research by companies such as Cambridge Antibody Technology (CAT) has developed antibodies that the immune system recognises as human.

Antibodies are used in research as part of the drug *discovery* process or for diagnosing and treating disease. Accoding to CAT, they can help researchers discover where in the body a particular molecule is made, where it acts, which other molecules it is associated with and whether it is involved in a disease.

Antibody-based imaging agents, designed to home in on cancer cells, can give doctors a more accurate diagnosis of a tumour than traditional methods. Several antibody drugs are either on the market or about to reach it. The biggest seller so far is Reopro, developed by Centocor and marketed by Eli Lilly; it is targeted at platelets, the blood particles responsible for clotting, and reduces the incidence of heart attacks following surgery to reopen blocked arteries.

Clive Cookson

Cystic fibrosis patients could benefit from current genomic experimentation Simon Fraser

GERMANY • by Sarah Althaus

A fledgling decides to fly

The government is taking an active part in ensuring future growth by providing funds

Germany has made a remarkable about-turn in biotechnology in the last few years. After sitting out on the global biotech revolution in the 1980s, it is now embracing the industry as one of the leading technologies for the next century.

Ironically, mnch of the credit for this change of heart lies at the door of what for most of the last decade was one of the sector's worst enemies: the German government.

For years, tough regulation and government neglect stifled activity in German biotechnology and helped stoke hostility towards the sector among the country's environmentally-conscious public.

Today, spurred on by the highest unemployment lavels since the second world war, tha government has relaxed rules on genetics technology and wants to take all steps to ensure that Germany becomes the European leader in biotechnology by 2000.

Admittedly, Germany's fledgling hiotech sector is far smaller than that of the US or UK, and has few commercial success stories. But the German government is taking a more active role in biotechnology than any other other in the world and is pouring an annual $800m into various programmes aimed at daveloping tha industry.

The campaign is paying off. With pnhlic hostllity towards biotech on the wane, accountants Ernst & Young say tha number of German hiotecb groups leaped to about 104 last year, compared with a handful in the early 1990s.

By year-end, Jürgen Rüttgers, minister for sclance and technology, estimates Germany will have about 300 biotech groups, albeit mostly tiny and at an early stage of development. "Wa have finally released the hand-brake," he says.

Science and technology minister, Jürgen Rüttgers Universal

One of the main impulses for the explosion was last year's "BioRegio" competition, under which the government awarded a total of DM150m in special financial support to three regions to encourage the development of biotech.

Funds from the competition, which lasted more than a year and pitted 17 regions against each other, will ba awarded over the next five years to help support projects around Munich, in a region of the Rhineland around Aacheo, Cologne, Düsseldorf and Wuppertal, and in the "Rhine-Neckar triangle" area around Heidelberg, Ludwigshafen and Mannheim.

In addition to the Bonn funds, large amounts of soft mooey are availahle from state governments to help biotech start-ups. For example, Bavaria, which is rapidly becoming Germany's biotech centre, has a risk financing fund BayernKapital, which invests up to DM3m in each company, matching similar amounts supplied hy the federal government's financing fund, Technologie Beteiligungsgesellschaft.

Heidelberg recently set up a similar fund, Heidelberg Innovation, to provide seed capital for biotechnology start-ups.

"The amount of soft money you can get here is unprecedented," says Simon Moroney, chairman of Morphosys, which is based at a new state-funded DM28m biotech centre just outside Munich.

Morphosys, which uses a technique called combinatorial hlology to speed up the discovery of drugs, is set to receive DM1.3m in BioRegio funds, bringing to DM10.6m the amount of federal and state loans it has heeo awarded since setting up in 1992.

Even Hesse, where the Greeo party is dominant, has had a change of heart, recently sending a 26-member government delegatioo to the US to research ways of promoting biotechnology and risk financing in the sector.

"Resistance to biotecb is crumbling eveo in regioos [of Germany] where it was ooce strongest," says Ulricb Aldag, chairman of Evotec Biosystems, a Hamburg-based group co-founded by nobel laureate Manfred Eigeo.

This new-found support from tbe government has given the sector a considerable boost of confidence. Hoechst, one of tbe large chemical groups forced to shlft most biotechnology activities abroad in the 1980s because of fierce resistance from environmentalists and politicians, has recently returned to open a genetic research laboratory in the Munich biotech centre.

Schering, meanwhile, has established a therapeutics venture, Metreon, with Cellgenix, a Freihurg-based geoe therapy group, in Freiburg, and BASF has set up a biotech venture in Heidelberg with Lynx Therapeutics of the US.

At the same time, the eotrepreoeurial sector is expanding rapidly, with 93 start-ups in the first half of 1997 alooe.

Furthermore, more established groups, such as Morphosys, Evotec, Medigeoe, a Munich-based therapeutics group specialising in cancer and heart disease, and Analyticoo, a Berlin-based biotech group, are seeking stock exchange listings in the next 12 months.

"Germany's biotech fever bas taken bold with an increased vehemence over the past 12 mooths," says Rüdiger Marquardt, spokesman for Dechema, the Frankfurt-based association of German biotech companies set up late last year.

A number of receot success stories have further improved sentiment. Take, for axample, Düsseldorf-based Qiageo, the world leader in products for the separation and purificatioo of nucleic acids, whose shares have more than quadrupled since it became the first German compaoy to list on Nasdaq last year.

Or Evotec, which earlier this year signed collahoration pacts with Novartis of Switzerland and Smithkline Beecham of the UK, worth up to $30m for the Hamburg-based group. Or Morphosys, whicb in Marcb linked up witb Pharmacia & Upjohn, tbe Swedish-US drugs group, io a researcb agreement worth up to $50m for Morphosys.

Notwithstanding a few criticisms – that the government should concentrate its funds on a few big biotecbnology projects rather than encourage bundreds of tiny ones, or do more to help young bigh-tecb companies by allowing stock options for employees – German biotechnology is blooming.

A library full of the blueprints of life

Genomics makes easy the reading of genes, addressing many health issues

The Human Genome project is a loosely co-ordinated international endeavour, with funding of several hillion dollars from public and private sectors, to work out the structure and sequence of the genome – all the DNA that provides the hlueprint for a human being through a four-letter chemical alphabet (A, T, C and G).

The project was launched in 1990 and experts expect that, by 2005, any scientist will be able to access a public database and read the complete sequence of 3bo chemical letters in the genome. This includes an estimated 80,000 genes, the basic units of heredity.

Genomics is the medical application of this knowledge – the way the genes work together with environmental factors to determine human health and sickness. The large-scale commercialisation of genomics began in 1992 when a new company, Human Genome Sciences, was founded in the US to collaborate with the non-profit Institute for Genome Research in the search for important genes.

Since then, dozens of genomics companies have been set up, and genomics is probably now the hottest area of biotechnology. The essential features of genomics research are to:

- identify a geoe (or genes) associated with a particular disease;
- evaluate a diagnostic or therapeutic target based on the geoe;
- develop tests and/or drugs that fit the target.

But there are several different approaches to genomics research.

Study of gene charts are the core of genomics AEA Technology

One category of company specialises in large-scale sequencing, following the lead of Human Genome Sciences, and produces databases with information about thousands of active genes. There is an opening here not only for human but also bacterial genomics – looking for genetic chinks in the armour of bacteria, as part of the search for better antibiotics.

Another type of genomics company looks for the genes that cause specific diseases, through genetic analysis of affected families. Isolated, genetically homogeneous populations with good medical records are ideal for the purpose – so DeCode Genetics, based in Iceland, seems to be in with a good chance.

A third and more diffuse group of companies concentrates on "functional genomics" – working out the functioo of specific genes in the body's various biochemical pathways. Some, like Affymetrix, have developed array technologies or "gene chips" to analyse which genes are expressed (switched on) in particular tissues. Others take advantage of similarities between the biochemical pathways in humans and simpler model organisms, such as yeast, fruit flies and nematode worms.

Clive Cookson

Tagged with great interest

Combinatorial chemistry is poised to be the next big wave in development

Combinatorial chemistry is the most exciting new chemical research technique of the 1990s. It miniaturises and automates chemical synthesis, creating a huge diversity of compounds by combining a fixed stock of molecular building blocks at random through a planned series of reactions.

The chemist's traditional approach is to devise the most efficient route to a single pure compound. In contrast, the combinatorial technique makes a huge "library" of compounds – each with an identifying chemical "tag" – at one go.

Combinatorial chemistry has taken pharmaceutical and biotechnology research by storm. Companies use it in the discovery process to make thousands of new compounds a week for testing in automated "high throughput screens". These are designed to detect signs of activity against biological targets (such as enzymes or cellular receptors). The technique is also useful in agrochemical research to identify compounds that might make useful pesticides or weedkillers.

Observing robotic drug testing used in combinatorial chemistry, which is taking the industry by storm Peter Menzel/Science Photo

Although it is too soon for products discovered through combinatorial chemistry to have reached the market, several are undergoing clinical trials with this goal in mind.

The main obstacle to extending the use of combinatorial chemistry is the lack of systems to test compounds in very small amounts. Even in drug discovery, researchers are anxious to miniaturise further the testing process – both for the initial high-throughput screening and for subsequent assays.

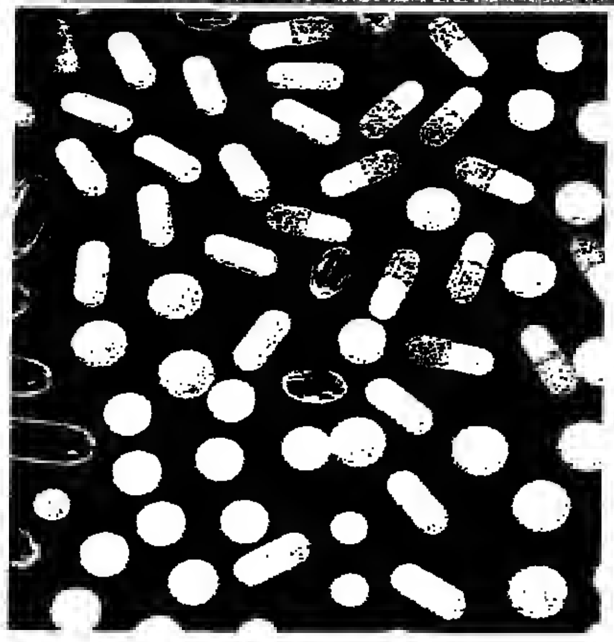
Although pharmaceutical and hiotech groups have quickly built an in-house capability in combinatorial chemistry, there are also many specialist companies selling technology or services in this field.

Frost & Sullivan, the international market research consultancy, estimates that combinatorial chemistry will fuel a trebling of global sales of biochemical research reagents, from $1.1bn in 1996 to $3.3bn (£2bn) in 2003.

Clive Cookson

6 BIOTECHNOLOGY

UK biotechnology companies




Company	Area	Approach
London stock exchange listed		
Biocompatibles	Coated devices	Implants in heart diseases/contact lenses
British Biotech	Drug discovery	Cancer
Cambridge Antibody	Drug discovery	Antibodies
Cantab	Drug discovery	Immunology
Celltech	Drug discovery	Antibodies
Chiroscience	Drug discovery	Specially purified drugs
Core	Drug delivery	Morphine and more
Cortecs	Drug delivery	Proteins, such as insulin, in pills
Drew Scientific	Diagnostics	Diabetes
Innovative Technologies	Wound care	Super-bandages
ML Labs	Drug/device development	Diabetes/asthma/Aids
Oxford Molecular	Software for drug discovery	Sells to big pharma
PPL Therapeutics	Drug manufacture	Using transgenic sheep
Peptide Therapeutics	Drug discovery	Vaccines
Phytopharm	Drug discovery	Eczema/many
Powderject	Drug delivery	Needleless injection of powders
Proteus	Drug discovery	Several
Scotia	Drug discovery	Using lipids/cancer
Shield Diagnostics	Diagnostics	For heart disease
Shire	Drug discovery/marketing	Alzheimer's/hormonal
SkyePharma	Drug delivery/generics	Many/genetics
Tepnel Life Sciences	Diagnostics	DNA testing
Therapeutic Antibodies	Drug discovery	Antibodies in snakebites etc
Vanguard Medica	Drug development	Migraine etc, licensed from big pharma
Xenova	Drug discovery	Cancer/products from natural sources
Aim, Ofex or Nasdaq listed		
Allzyme	Drug discovery	Obesity
AorTech	Devices	Heart valves
Biofocus	Drug discovery services	Sells to big pharma
Chemical Design	Software for drug discovery	Sells to big pharma
Electrophoretics	Diagnostics	Many
Ethical Holdings	Drug delivery	Extended release formulations
Haemocell	Devices/marketing	Blood transfusion
KS Biomedix	Drug discovery/development	Sheep antibodies for human use
Medeys (formerly Biocure)	Drug discovery	From carbohydrates
NMT	Devices	Retractable needle
Oxford Biomedica	Drug discovery/delivery	Gene therapy
Polymasc	Drug discovery	Modified proteins
Stanford Rook	Drug development	Single drug; several trials

Company	Area	Approach
Privately held (a selection)		
Adprotech	Drug discovery	Inflammation
Alphacore	Drug development	Like Vanguard Medica
Antisoma	Drug discovery	Antibodies/cancer
Andaris	Drug delivery	Microscopic spheres
Axis Genetics	Drug discovery	Vaccines from plant viruses
Bioglan	Drug discovery/delivery	Dermatology
Bioprocessing	Manufacturing services	[illegible]
Biovation	Drug discovery	Antibodies
Brax Genomics	Drug discovery	Genetic analysis
Cambridge Combinatorial	Drug discovery services	Linked with Oxford Molecular
Calyx Plantech	Agricultural	Linked to six universities
Cambridge Genetics	Drug discovery	Through viruses
Cenes	Drug discovery/development	Neurology
Cerebrus	Drug discovery	Neurology
Cobra Bioscience	Drug discovery	Cancer
Cyclacel	Drug discovery	Cancer
Ectagen	Drug discovery	Immunology
Eurogene	Discovery services	Heart disease/Gene therapy
Gyrus	Devices	Ultrasound scalpel
Gemini	Discovery services	Genetic analysis
Hexagen	Discovery services	Genetic analysis
Hoeft Rademacher	Drug discovery	Many
IGX	Drug discovery	Antibodies
Kindertec	Health monitors	For infants
London Biotechnology	Drug discovery	[illegible]
Microgen	Diagnostics	Virus and bacteria detection
Microsciences	Drug discovery	Infectious diseases
Neuropa	Discovery services	Genetic analysis
Onyvax	Drug discovery	Cancer vaccines
Oxagen	Drug discovery services	Genetic analysis
Oxford Asymmetry	Drug development/manufacturing services	Sells to big pharma/biotech
Oxford Gene Technology	Discovery services	Protein separation
Oxford Glycosciences	Drug discovery	Using carbohydrates
Quadrant Healthcare	Drug delivery	Using sugars
Phairson	Drug discovery	From milk, virtual company
Pharmagene	Drug discovery	From human tissue
Prolifix	Drug discovery	Many
ReNeuron	Cell therapy	Neurology
Ribotargets	Drug discovery	RNA, not DNA
Therexys	Drug discovery/delivery	Gene therapy
Western Medical	Drug delivery	Needleless injection

هكذا من الأصل